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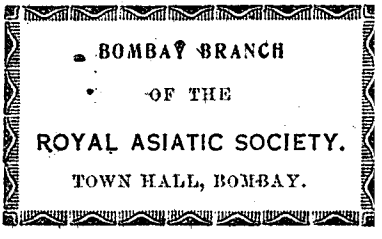

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The Indian Central Banking Enquiry Committee

1931

VOLUME I

108791 M

PART I—MAJORITY REPORT

00108791

CALCUTTA: GOVERNMENT OF INDIA
CENTRAL PUBLICATION BRANCH
1931

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Name of Committee.	Total expenditure.	Cash contribution made by Provincial Governments.	Balance paid from Central revenues.
	Rs.	Rs.	Rs.
1. Madras	71,247	32,200	39,047
2. Bombay	1,20,563	20,000	1,00,563
3. Bengal	78,244	...	78,244
4. United Provinces . .	44,124	...	44,124
5. Punjab	44,467	10,967	33,500
6. Burma	73,474	19,447	54,027
7. Bihar and Orissa . .	68,871	...	68,871
8. Central Provinces . .	1,09,506	...	1,09,506
9. Assam	40,443	10,000	30,443
10. Central Areas . . .	71,283	...	71,283
11. Indian Central . . .	6,14,518	...	6,14,518
Total .	13,36,740	92,614	12,44,126

List of publications of the Indian Central Banking Enquiry Committee and the various Provincial Committees.

Name of Committee.	Description of publications and price of each.					
	Volume I.	Volume II.	Volume III.	Volume IV.	Volume V.	Volume VI.
1. Madras . .	Report (Rs. 2-2 or 4*s.*)	Evidence (Rs. 12-14 or 21*s.*)	Evidence (Rs. 14-2 or 28*s.*)	Evidence (Rs. 10-6 or 17*s.*)	Evidence (Rs. 6 or 9*s.* 9*d.*)	Coorg Sub-Committee Report (Rs. 3 or 5*s.* 3*d.*)
2. Bombay . .	Report (Rs. 5 or 8*s.* 3*d.*)	Evidence (Rs. 10 or 16*s.* 6*d.*)	Evidence (Rs. 10 or 16*s* 6*d.*)	Evidence (Rs. 10 or 16*s.* 6*d.*)	...	...
3. Bengal . .	Report (Rs. 4 or 6*s.* 9*d.*)	Evidence (Rs. 6-14 or 11*s.*)	Evidence (Rs. 3-2 or 5*s.* 6*d.*)	...	...	...
4. United Provinces	Report (Rs. 2-6 or 4*s.* 3*d.*)	Evidence (Rs. 5-8 or 9*s.*)	Evidence (Rs. 6 or 9*s.* 6*d.*)	Evidence (Rs. 6-8 or 10*s.* 6*d.*)	...	...
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6. Burma . .	Report (Rs. 3-4 or 5*s.* 6*d.*)	Evidence (Rs. 11-8 or 18*s.*)	Evidence (Rs. 11-8 or 18*s.*)	...	...	...
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9. Assam . .	Report (Rs. 3-4 or 5*s.* 6*d.*)	Evidence (Rs. 13 or 21*s.*)	...	...	...	...
10. Central Areas .	Report (Rs. 5 or 8*s.* 3*d.*)	Evidence (Rs. 8-14 or 15*s.*)	Evidence (Rs. 7-14 or 13*s.*)	Evidence (Rs. 4-8 or 14*s.*)	...	...

NOTE.—The publications mentioned above are obtainable at the Central Publication Branch, Hastings Street Calcutta.

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CHAPTER I.

INTRODUCTORY.

The demand for a banking enquiry in India is very old and was voiced as early as 1890 at the first Industrial Conference in the following words :—

> "No fact in the economic condition of this country arrests more forcibly our attention than the contrast presented by the hoards of unused capital stored up in the vaults of the Presidency and other exchange banks and the high premium Government securities command on the one side, and on the other the utter paralysis of industry in rural India due to the poverty of the resources of the classes engaged in the production of wealth. It would appear as if some impenetrable barrier intercepted the overflow of wealth and barred the channels of communication between the reservoirs of capital and the parched fields of industry dried up for want of the wealth-bearing and fertilizing moisture."

To come to recent times, in 1914 the Royal Commission on Indian Finance and Currency urged the appointment of a committee to study certain questions connected with banking. Later on in 1918, the Industrial Commission made the following recommendation :—

> "We ask, therefore, for the appointment at the earliest possible date of an expert committee to consider what additional banking facilities are necessary for the initial and for the current finance of industries; what form of Government assistance or control will be required to ensure their extension on sound lines as widely as possible throughout the country; and whether they should be of provincial or of imperial scope, or whether both these forms might not be combined in a group of institutions working together".

In 1919, the Hon'ble Mr. (now Sir) B. N. Sarma moved a resolution in the Imperial Legislative Council urging the appointment of a banking committee. More recently, in 1924, the External Capital Committee observed, "India possesses vast stores of dormant capital awaiting development and in order to make these available for investment, facilities should be increased and extended. We would emphasize the importance of a co-ordinated survey being undertaken at the earliest opportunity of the whole field of banking in India."

2. While the Government of India were considering, in consultation with the local Governments, both the method of surveying

the field, and of encouraging the development, of banking in India, the report of the Royal Commission on Indian Currency and Finance, 1926, was received. After examining the replies from the local Governments and the Commission's Report, the Government of India came to the conclusion that it would be preferable to postpone further enquiry into the field of banking as previously contemplated until the Reserve Bank was established and some experience of its working had been gained.

3. When, therefore, in February 1927, Mr. S. N. Haji moved a resolution in the Legislative Assembly recommending the appointment of a commission to investigate the existing condition of banking in India, the Government of India decided that the time was not opportune for the appointment of such a committee. They further considered that it was desirable to await the Report of the Royal Commission on Agriculture in India, as in their opinion an important portion of the ground of the proposed banking enquiry was covered by the terms of reference to that Commission.

4. The Reserve Bank Bill was rejected by the Legislative Assembly in 1928. The report of the Royal Commission on Agriculture was presented in April of the same year. These two factors, coupled with the resolutions* of the Associated Chambers of Commerce of India and Ceylon and the Federation of Indian Chambers of Commerce and Industry, at their annual meetings in December 1927 and 1928 respectively urging upon the Government immediately to appoint an Indian Banking Enquiry Committee, led Government to change their previous attitude in regard to the Enquiry and to take steps for its inauguration. After ascertaining fully the views of the two commercial bodies mentioned above, and after further discussions with the representatives of the various political parties in the Central Legislature, which disclosed a fairly general consensus of opinion as to the broad lines

* The resolutions of the two bodies are quoted below :—

(i) *The Associated Chambers of Commerce of India and Ceylon :*

"This Association urges on Government the advisability of holding, at an early date, an examination into banking in India with a view to steps being taken to regulate banks and banking business in this country".

(ii) *The Federation of Indian Chambers of Commerce and Industry :*

"The Federation urges upon the Government of India to immediately appoint an Indian Banking Enquiry Committee with special reference to look into the system of Indian indigenous banking (*sharafi*) with a view to develop and foster the same".

The following resolution had also been passed in 1927 at the fifth session of the Indian Industrial and Commercial Congress, by which name the Federation of Indian Chambers of Commerce was then known :—

"This Congress urges upon the attention of the Government of India, the resolution moved in the Legislative Assembly by Mr. Sarabhai N. Haji regarding the appointment of an Indian Banking Enquiry Committee consisting of a majority of Indians and an Indian Chairman with a special reference to look into the organization of Indian indigenous banking with a view to foster and develop the same and strongly urges upon the Government the need for the immediate appointment of such Committee".

of the proposed Enquiry and its objects, the Government of India prepared a scheme for enquiry and forwarded it for the consideration of the local Governments whose co-operation, they considered, was essential.

5. The plan which was approved by the local Governments was to split the Enquiry into three stages. In the first stage a number of Provincial Committees, with persons possessing intimate knowledge of local conditions, were to be appointed to deal with the following subjects, *viz.*, agricultural credit including co-operative credit, credit facilities for small industries, mortgage banks, financing of internal trade and stimulation of habits of investment and attraction of banking deposits. After the Provincial Committees had reported, an all-India Committee was to continue the work by making investigation into certain fields of banking excluded from the scope of the Provincial Committees' Enquiry, such as regulation of banking, banking education and credit facilities for India's main industries such as cotton, jute and coal. This was to be the second stage of the Enquiry. When the Central Committee had completed the survey of the whole banking field, the third and the last stage would be reached when a small body of foreign experts, selected by Government and having experience of rural credit and industrial banking, was to be appointed to assist the Central Committee in coming to their conclusions.

6. The Provincial Committees were accordingly constituted and all of them began regular work by the beginning of August 1929 except the Punjab Committee which began a little later. The first of the provincial reports was received in May 1930 and though the reports of certain Committees were published so late as November of the same year, we were supplied with advance copies before that date. We cannot adequately express our gratitude to the Provincial Committees for the comprehensive picture they have drawn for us of the conditions in the provinces and for the valuable recommendations and suggestions they have made. We have in fact used the material contained in these reports so freely in our own report that we have not found it possible to acknowledge our indebtedness at each place.* At the same time we should like to draw attention to the fact that owing to the comparative shortness of time allowed and the rigid economy practised, which stood in the way of these Committees undertaking a more thorough investigation of the various questions concerning the economic conditions and the banking problems of their provinces, and for various other reasons mentioned in their reports, it was difficult for them to work out satisfactory statistical data relating to the amount of rural indebtedness, the amount of agricultural finance required, and the volume of business of the idigenous bankers.

*References have, however, been given by footnotes on several pages of the Report to the paragraphs in the Provincial Committees' Reports, *e.g.*, Bengal, paras. 346 –56 on page 12.

7. Our Committee was formally appointed in the Government of India's Resolution No. F. 2 (4)-F./29, dated the 22nd July 1929, with the following personnel :—

	Chairman.
1. The Hon'ble Sir Bhupendra Nath Mitra, K.C.S.I., K.C.I.E., C.B.E.	Who commenced his regular duties on the termination of his appointment as Member of the Executive Council of the Governor General.
	Vice-Chairman.
2. Sir Purshotamdas Thakurdas, Kt., C.I.E., M.B.E., M.L.A.	Who acted as Chairman pending the taking up of his duties by Sir Bhupendra Nath Mitra.
3. Mr. H. P. Khaitan	Nominated in consultation with the Federation of Indian Chambers of Commerce and Industry.
4. Mr. B. F. Madon	
5. Sir Hugh Cocke, Kt.	Nominated in consultation with the Associated Chambers of Commerce of India and Ceylon.
6. The Hon'ble Mr. J. H. Fyfe	
7. Dr. L. K. Hyder, M.L.A.	Indian Economists.
8. Mr. Manu Subedar	
9. The Hon'ble Mr. V. Ramadas Pantulu	Representatives of the Co-operative movement.
10. Rai Jamini Mohan Mitra Bahadur	
11. Mr. W. Lamond	Nominated in consultation with the Imperial Bank of India.
12. Lala Harkishen Lal	Joint-Stock Banker.
13. Mr. R. W. Buckley	Representative Exchange Banker. Nominated in consultation with the Exchange Banks' Association.
14. The Hon'ble Raja Sir Annamalai Chettiar, Kt.	Indigenous Bankers.
15. Mr. Jadu Nath Roy	
16. Mr. G. K. Devadhar, C.I.E.	Representatives of the general interests of the public from the side of those who require credit facilities.
17. Mr. R. K. Shanmukham Chetty, M.L.A.	
18. Choudhri Mukhtar Singh, M.L.A.	
19. Seth Haji Abdoola Haroon, M.L.A.	
20. Mr. Jamal Mahomed	
21. Nawab Sir Sahibzada Abdul Qaiyum, K.C.I.E., M.L.A.	
Mr. V. K. Aravamudha Ayangar, C.I.E.	*Secretary*
Mr. R. P. Masani	*Joint Secretary.*

8. The Committee suffered a severe loss by the sudden death of Mr. B. F. Madon and the vacancy thus created was filled by Mr. Nalini Ranjan Sarker, who was nominated by the Federation of

Indian Chambers of Commerce. The Hon'ble Mr. J. H. Fyfe had to resign from the Committee owing to his departure from India, and in his place Mr. F. V. Rushforth was nominated by the Associated Chambers of Commerce. We also regret that owing to considerations of health and private affairs we were deprived of the valuable services of the Hon'ble Raja Sir Annamalai Chettiar who resigned his membership of the Committee in December 1930. Rai Jamini Mohan Mitra Bahadur, one of the Co-operative experts, attended our first meeting in Bombay, but his services were not made available for our subsequent deliberations. At the time of signing the report, the strength of the Committee was thus nineteen.

9. The terms of reference which were decided by the Government of India in consultation with us at our first meeting held in Bombay at the end of June 1929, are as follows :—

"To investigate past records and existing conditions of banking in India including the organization of the Money Market and to consider the steps, if any, that are feasible and desirable under the following main headings :—

(*a*) the Development of Banking with a view to the expansion of indigenous, co-operative and joint-stock banking with special reference to the needs of agriculture, commerce and industry;

(*b*) the Regulation of Banking with a view to protecting the interests of the public; and

(*c*) *Banking Education* with a view to the provision of Indian personnel in adequate numbers and with the necessary qualifications to meet the increasing needs of the country for a sound and well-managed national system of banking."

10. Our first task on appointment was to prepare a questionnaire both in regard to the subjects reserved for our own direct investigation and also for the subjects allocated to the Provincial Committees. The issue of a standard questionnaire for the use of Provincial Committees was considered necessary in order to facilitate tabulation of the results of the provincial enquiry. These two forms of questionnaire were settled at our first meeting in Bombay and the provincial questionnaire was forwarded to the Provincial Committees through the Government of India and the Provincial Governments concerned. The Provincial Committees were requested to add questions which they considered necessary for the purpose of eliciting information regarding special local or provincial features. All the Committees have availed themselves of this suggestion.

11. As stated above, we held our first meeting in Bombay in June 1929 for settling, among other things, the questionnaire for

both the Central and the Provincial Committees. Our next meeting was held in Delhi in February 1930 to consider our future programme and we decided that the headquarters of the Committee should be located at Bangalore up to the end of June 1930 and transferred to Poona for the rest of the period. Under the guidance of the Chairman, Sir B. N. Mitra, who assumed charge in April 1930 at Bangalore, the secretariat of the Committee spent the early months of the official year in preparing a summary of the Provincial Committees's reports for the use of the members of the Central Committee. In view of the vastness of the material we had to study and examine, such a summary was essential. The examination of witnesses began from the middle of August 1930 and lasted till the middle of October. We examined three more witnesses, including two officials, in March 1931 at New Delhi. In all 55 witnesses were examined. The witnesses were sufficiently representative and included 8 Chambers of Commerce, 5 trade associations, 8 economists, 6 bankers and 7 representatives of the co-operative movement.

Towards the end of October 1930, in response to an invitation from His Majesty's Government, the Chairman had to leave India to attend the Round Table Conference in London. He returned to India on the 23rd January 1931.

12. In their communiqué dated the 6th of October 1930, the Government of India announced the appointment of the following foreign experts :

(1) *Mr. G. C. Cassels*—

Manager of the Bank of Montreal, London.

(2) *Mr. B. Currie*—

Partner in Glyn, Mills and Company.

(3) *Dr. A. Friederich*—

General Secretary of the Union Co-operative Society, Darmstadt.

(4) *Dr. O. Jeidels*—

A managing partner of the Berliner Handels-Gescellaschaft. Berlin, Member of the Board of German National Railway Company, and Director of various other companies in Germany.

(5) *Mr. A. P. McDougall, C.B.E.*—

Chairman and Managing Director of Midland Marts Limited and Chairman of Midland Wool Groupers Limited, formerly President, Co-operative Farms Trading Society in Scotland.

(6) *Dr. L. J. A. Trip*—

Former Treasurer General at Department of Finance, the Hague, and former President to Bank of Java.

They arrived in Bombay on the 12th of December 1930 and after a few weeks' tour about the country, reached Delhi on the 9th of January 1931. Meantime, to suit the convenience of certain members of the Committee who were also members of the Legislative Assembly, it had been decided to move the Committee's secretariat from Poona to Delhi.

13. Owing to the unexpected delay in the return of Sir B. N. Mitra from London, it was not possible for us to meet the experts before the 26th of January 1931. Our joint discussions with them lasted till the 16th of February 1931 after which date we were occupied with the drawing up of our provisional conclusions on the subjects already discussed with them. Our discussions were resumed on the 4th of March and continued for a fortnight. Dr. Jeidels left for Germany on the 7th February, and the remaining experts left India on the 14th March except Mr. McDougall and Dr. Friederich who sailed a week later.

14. According to paragraph 5 of the Government of India's Resolution, dated the 22nd July 1929, the experts were entitled to submit to us a report of their own, if necessary, and in that case we were required to submit their report together with our own report to the Government of India. The report submitted by the experts is accordingly printed as an appendix to our report and is submitted to Government.

15. In order to complete the banking picture for the whole of India, the Government of India announced in their press communiqué dated the 12th June 1929, that they wished to offer facilities to any of the Indian States that might desire to associate themselves with our Enquiry. In accordance with this offer the following States appointed their own Committees :—

1. Akalkote.
2. Aundh.
3. Baroda.
4. Bhopal.
5. Bikaner.
6. Dhar.
7. Dholpur.
8. Gwalior.
9. Hyderabad.
10. Jodhpur.
11. Kolhapur.
12. Orcha.
13. Patiala.
14. Phaltan.
15. Porbandar.
16. Pudukottah.
17. Ratlam.
18. Savanur.
19. Travancore.

These Committees were supplied with the questionnaire prepared by us and were also furnished from time to time with all material that was placed at the disposal of the Provincial Committees.

The reports of the following Committees have been received :—

1. Akalkote.
2. Aundh.
3. Baroda.
4. Bhopal.
5. Bikaner.
6. Dhar.
7. Gwalior.
8. Hyderabad.
9. Kolhapur.
10. Orcha.
11. Phaltan.
12. Porbandar.
13. Ratlam.
14. Savanur.
15. Travancore.

We understand that the Jodhpur, Puddukottah and Dholpur Darbars have not prepared any reports of their enquiry.

We desire to place on record our grateful appreciation of the care and thoroughness with which the States Committees have done their work.

16. We should like here to refer to a point which has engaged our serious attention in the course of our deliberations, namely, the constitutional problem of India and its bearing on the questions under our consideration. Although it was felt by some of us that a good banking system should function independently of any form of constitution, we all felt nevertheless the necessity at many points of our Enquiry of knowing what the future constitution of India was going to be. In order that our discussions might proceed on the basis of a common angle of vision, we agreed that the fundamental basis for making our recommendations should be that the administration of the provinces and the Central Government would be wholly in the hands of Ministers fully responsible to the respective legislatures. It should be clearly understood that all our recommendations are based on this fundamental assumption.

17. We append to our report three separate minutes or notes of dissent. The first of these is by Mr. Ramadas Pantulu and deals with indigenous bankers; the second is by Mr. Nalini Ranjan Sarker and deals mainly with the financial requirements of industries and the financing of foreign trade; the third is signed by six of our colleagues, *viz.*, Sir Purshotamdas Thakurdas, Mr. Khaitan, Mr. Jamal Mahomed, Mr. Ramadas Pantulu, Mr. Shanmukham Chetty and Mr. Mukhtar Singh, and deals mostly with the financing of foreign trade. We shall deal with the subject matter of these various minutes in the appropriate chapters of our report.

18. We also append a separate report by Mr. Manu Subedar. This report is a tome by itself and covers ground which is common to both his report and ours. It was received too late for us to give detailed consideration to it and make our comments on it. The deliberations of the Committee ceased on 11th April 1931 and by the 2nd June we had not received the signed copy of Mr. Manu

Subedar's report,* though portions of the report became available to us in proof from 25th May, the last portion being placed in our hands on 28th May.

It is not correct, as stated by Mr. Manu Subedar in paragraph 2 of his report, that he had no opportunities for discussion of the whole problem with the other members of the Committee. The volumes of evidence bear ample testimony to the contrary. He also remained associated with us when we were formulating our conclusions and participated actively in the discussions thereon.

As we have already stated, it has not been possible for us to comment on the report at length as we would have desired. In so far as he considers that the value of our work has suffered from lack of any direct link between our Committee and the Provincial Committees or doubts the reliability of facts incorporated in the reports of the latter, we disagree with his criticism in this connection. The acting Chairman of our Committee maintained necessary contact with the Provincial Committees. The members of our Committee were invited to join the deliberations of the Provincial Committees and some members took advantage of such invitation. The acting Chairman, as well as several of our members also met the Chairmen and the Secretaries of the Provincial Committees in a conference at Calcutta in January 1930 and discussed various matters relating to the Enquiry. By this means personal contact was maintained between the Central Committee and the Provincial Committees.

As regards Mr. Manu Subedar's remarks about the banking experts from abroad, we consider these to be unfortunate. These gentlemen came out to India at some sacrifice to themselves in response to invitations from the Government of India. The party leaders in the Assembly had agreed to this feature of the Enquiry and we think it is to be regretted that one of our colleagues should have thought it right to criticize the assistance that these gentlemen took pains to give us in the short space of time at their disposal. Mr. Manu Subedar was aware of the procedure laid down by the Government of India for the prosecution of the Enquiry before he joined the Committee.

19. We desire to add that our colleagues, Sir Purshotamdas Thakurdas and Mr. Lamond, in view of their position respectively as a Governor of the Imperial Bank and an officer of that Bank and therefore directly interested in the affairs of the Bank, have not taken any part in the voting in regard to our recommendations affecting that Bank.

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* The signed report was handed over to the Chairman on the afternoon of the 2nd June after the Committee had held its last meeting and dispersed.

20. We desire to express our sincere gratitude to our Secretary, Mr. V. K. Aravamudha Ayangar, C.I.E., whose intimate knowledge of currency, finance and banking, and the zealous and efficient manner in which he has carried out his duties, have made his services a source of considerable strength to the Committee. Our grateful acknowledgments are also due to our Joint Secretary, Mr. R. P. Masani, for useful assistance, the value of which has been enhanced by his practical experience as a banker and in business generally. We desire further to record our high appreciation of the manner in which Mr. K. C. Seth, Superintendent, and the staff of the Committee have discharged their duties.

CHAPTER II.

DEVELOPMENT OF BANKING IN INDIA.

21. Information in regard to banks established in India on European lines up to the beginning of the second half of the nineteenth century is given in Cooke's book on "The Rise, Progress and Present Condition of Banking in India"; and full information in regard to the Presidency Banks of Bengal, Bombay and Madras is contained in J. B. Brunyate's Account of the Presidency Banks. Researches made by Indian economists in recent years have thrown considerable light on the gradual development of banking in India from earliest times, and much valuable information on the subject will be found in the books published within the last five years by Messrs. B. T. Thakur, H. Sinha, L. C. Jain and Ramachandra Rau, though a portion of the field, namely, from the sixth to the sixteenth centuries, still remains to be explored. Considerable amount of useful information is also contained in the reports of some of the Provincial Banking Enquiry Committees as well as in those of some of the Committees appointed by the Indian States. It may be of interest to bring together in this report some of the more important facts.

INDIGENOUS BANKING.

22. It is now generally admitted that from the earliest times India possessed a system of indigenous banking. It will suffice in this connection to give the following extract from "From the Remote Past to an Assured Future" by Mr. W. E. Preston, Chief Manager of the Chartered Bank of India, Australia and China, and a member of the Royal Commission on Indian Currency and Finance, 1926, which is quoted on page 26 of Mr. Thakur's book on "Organization of Indian Banking" :—

> "It may be accepted that a system of banking eminently suited to India's then requirements was in force in that country many centuries before the science of banking became an accomplished fact in England. It is true that the methods of old in force in India were vastly different from the European ideas of banking to-day and partook more of money-lending, money-changing and later of the *hundi* business; nevertheless as applied to the conditions then existing in India, they admirably acted their part, and must be recognised as having rendered immense services to the country as a whole, particularly when we keep in view the enormous agricultural interests of India."

Indeed, money-lending can be traced back to the Vedic period which is taken by some authorities to range from at least 2,000 to 1,400 B. C.; but no evidence of its then being followed as a profession by any section of the people, or details about the terms on which money was lent, are available. It is from the fifth century B. C. that Indian literature supplies us with definite evidence of the details of money-lending and of remittance of money in cash or by credit instruments. The Buddhist works and recent archæological discoveries reveal the existence of associations or guilds carrying on various commercial and industrial activities. The *sresthis* or bankers occupied prominent positions in these guilds. In each of the important trade-centres of the Buddhist period, *e.g.*, Champa, Rajagriha, Sravasti, Kausambi and Avanti, there lived many *sresthis* of great influence. Their main function was to finance the traders for the ordinary purposes of their trades, the merchant adventurers who went out by sea to foreign countries or explorers who traversed forests in search of valuable materials, and the kings in times of war and other financial stress. The Buddhist texts abound in references to the practice of lending money on or without interest. The more common practice was lending money on interest, the loans being secured by mortgage, by pledge of movables or by surety. The *Artha Shastra* (Kautilya) prescribes the maximum legal rate of interest on secured loans as 15 per cent. and that on unsecured loans as 60 per cent, without any discrimination as to caste, though the rate might go up to 120 and 240 per cent. per annum according to the risk involved in special circumstances. The *Dharma Shastras* are in general agreement with the *Artha Shastra* except that they introduce caste as an important factor in money-lending. They lay down that a particular caste (the *vaisya*) alone can take to the profession of money-lending, and they also prescribe a variation from 15 per cent. to 60 per cent. in the interest on unsecured loans according to the caste of the borrower. (1).

23. There is no continuous account of indigenous banking extant from the sixth to the sixteenth centuries.(2) But references are traceable to the use of *hundis* as early as the twelfth century A. D.(3), we have also evidence in the writing of Muhammadan historians like Barni, author of "Tarikh-i-Firoz-Shahi", and Shamsafif, of the existence of Multanis and *shroffs* who financed not only internal trade and commerce between various centres but also acted as bankers of the early dynasties of the Moslem period. During the Moghul period, it appears from the Ain-i-Akbari and other internal records, as well as from

(1) Bengal, paras. 346-56. Bombay, para. 252. Baroda, para. 211.

(2) L. C. Jain's "Indigenous Banking in India", page 10.

(3) United Provinces, para. 410.

Tavernier's Travels, that indigenous bankers continued their business of money-lending and played an important part in financing the trade of the country by means of credit instruments. Tavernier also mentions how the foreign trade of the country in the seventeenth century was financed partly by cash and partly by bills drawn on Surat and payable in two months; and he gives the rate of exchange on Surat at Lahore, Agra, Ahmedabad, Sironj, Burhanpur, Dacca, Patna and Benares.(1) There is no definite information available about the rates of interest charged in those days by the indigenous bankers on loans. The fact that according to the Ain-i-Akbari the State granted loans to officials at rates of interest varying from 6¼ per cent. in the second year to 50 per cent. in the fifth year, and 100 per cent. in the tenth year in order to operate as a check on the usurers, however, shows that a still higher rate of interest had to be paid by these people on loans obtained from other sources. There is also evidence to show that in the last quarter of the sixteenth century the *vaniks* in Bengal used to charge needy persons interest at the rate of more than 500 per cent.(2) The system of currency and coinage during the Moghul period, with its large number of mints scattered all over the country which issued metallic currency of various classes, also provided the indigenous banker with the important and profitable business of money-changing. Further, it became the practice during this period of employing some of the important indigenous bankers in various parts of the empire as revenue collectors, bankers and money-changers to Government. These bankers naturally acquired considerable influence and power; and as has been pointed out in the report of the United Provinces Banking Enquiry Committee (paragraph 410), "the *Jagat Seths* (world bankers) of the seventeenth and eighteenth centuries, for their power and influence, are comparable with any private banking house in any other country; and indeed, they seem to have fulfilled many of the functions of a central bank—essentially a modern institution".

24. When the English traders came to India in the seventeenth century, the indigenous banking system was already established. But while they required some machinery to satisfy their credit needs, they could not easily make use of the indigenous system. They on their side were not conversant with the language of the indigenous bankers, while the bankers had no experience of the finance of western trade. In order to overcome these two-fold difficulties, two remedies were adopted. In the first place, the English agency houses which were established in Calcutta and

(1) Jain, page 14.

(2) Bengal, paras. 358 and 362.

Bombay took upon themselves the business of banking in addition to their commercial and trading activities. In the second place, the importance of forming connections with the indigenous bankers, who held a high place in the financial and political activities of the country, was not ignored.(1) Indeed, in the earlier years after their rise to power, the East India Company did not favour the establishment in India of European banks, and they held the opinion that the agency houses and the indigenous bankers were better fitted to meet the banking needs of the community. These measures, however, failed to arrest the decline in the business and influence of the indigenous banker. The incessant wars and the disorder which followed on the downfall of the Moghul Empire severely affected their business. Not infrequently were they cheated by their customers which involved them in serious losses and sometimes resulted in their inability to redeem their promises. The unification of the coinage in 1835 deprived the indigenous banker of his profitable business of money-changing. The development of the means of communication by land and sea, and the consequent deflection of trade and commerce from former trade routes and the alteration in the whole basis of the commercial relations of the country with other countries, all contributed to his downfall. With the decline of the indigenous bankers and the gradual progress of English trade and dominion in India, the need was felt by the East India Company for the establishment of banks which would meet both administrative requirements and the demands of trade. The result was the creation of Government treasuries and the foundation of early banking institutions on western lines, and these have operated to the further disadvantage of the indigenous banker.(2) As has been observed in the report of the Punjab Banking Enquiry Committee,(3) compared with institutions of the western type, the indigenous banker is at a disadvantage in respect of large-scale operations. With diminishing resources the volume of his business is declining when success demands that it should increase. Accordingly, just as in England the old family bank has had to give way to the large joint-stock bank, the indigenous banker is being obliged to give way to the commercial bank. Despite the establishment of joint-stock banks, however, a good deal of banking business still remains in the hands of the indigenous bankers in all parts of the country. The operations of the former are confined largely to the provision of banking facilities at the ports and more important urban centres, so that throughout the

(1) Jain, pages 16-17.

(2) Jain, page 23.

(3) Punjab, para. 188.

country the indigenous bankers have filled the gap left uncovered by these banks and financed agriculture and the internal trade of the country. Especially in rural areas their help is as indispensable as before. With the altered conditions, however, the indigenous banker in some cases acts as a middleman between the Imperial Bank of India and the joint-stock banks on the one hand, and the Indian trading community on the other. He buys and sells *hundis* and then rediscounts them at the big banks whenever necessary and thus performs functions analogous to those of the bill brokers of the London money market.(1).

25. No definite information is available as to whether the indigenous banker adopted the practice of receiving regularly deposits from the public on payment of interest at any stage of his existence, and if so, when this transition took place. At the time when the indigenous banker came into existence, the custom seems to have been to hoard capital wealth or deposit it with a friend rather than with the bankers. There is evidence that the associations of bankers in ancient times used to receive permanent deposits and to hold them as trust properties. It is also true that Manu devotes a special section to the subject of "deposits and pledges". But there is no mention in his book of the payment of interest on such deposits, and it is possible that the deposits which he refers to were deposits for safe custody only. The *Artha Shastra* lays down definite rules for the hoarding and utilization of wealth on interest, but is silent on the subject of deposit-banking. In western countries deposit-banking did not come into vogue until at a later stage of the development of banking, and in England banks did not undertake this work until the year 1645. In India many of the indigenous bankers do not, even at the present day, accept deposits from the public; and it is reported from a State like Bikaner, which does not possess a single joint-stock bank, that "generally the indigenous bankers and money-lenders in villages and towns do not keep any deposits and those at the capital do keep deposits of some of the people". The reason why the indigenous banker in India has not generally taken to deposit banking is probably furnished by B. T. Thakur, who states on page 5 of his "Organization of Indian Banking" that "Indian Bankers in the past have generally carried on ordinary trade with their banking business, with the result that this dual activity has greatly reacted upon the banking development of this country. It is only very lately that private Indian bankers have realized the strong necessity of not adding ordinary commercial transactions to their credit business".

(1) Bombay, para, 252.

Establishment of banks working on European lines.

26. Reference has been made in paragraph 24 above to the establishment of English agency houses in Calcutta and Bombay which took upon themselves the business of banking in addition to their commercial and trading activities. These houses became the agents for the whole civil and military services and also for European bankers and merchants settled in the country. They had originally no capital of their own, and they depended almost wholly on the savings of the servants of the East India Company. They received deposits, made advances for the movement of crops, and issued paper money which was considered extremely beneficial for carrying on their operations. The banking business of the East India Company was entrusted to some of these concerns in Calcutta and Bombay. These agency houses thus became the forerunners of joint-stock banks established on European lines. In his book on "The Rise, Progress and Present Condition of Banking in India," Cooke has stated that probably the first banking institution in India on European lines was the Bank of Hindusthan which was founded in 1770 by one of the agency houses in Calcutta. Later investigations have thrown doubt on the accuracy of this statement, and it is possible that one or two other banks of this type came into existence before the Bank of Hindusthan, though it is doubtful whether they continued in existence for any length of time. These banks, and others which followed them, were local institutions chartered by the East India Company. They are the forerunners of banks formed under the provision of enactments of the Indian legislature which are now divided into two categories, namely (1) the Imperial Bank of India, formed on the amalgamation of the three Presidency Banks, and (2) the Indian joint-stock banks. It will be convenient to deal with these two classes separately.

The Presidency Banks and the Imperial Bank of India.

27. The Bank of Bengal, which was the first of the Presidency Banks, was started in the year 1806 under the name of the Bank of Calcutta. It obtained its first charter in 1809 when it assumed the name of the Bank of Bengal. It was considered essential in the interests of Government and of the mercantile community to have such a bank. Money then used to be raised by treasury bills which often had to be sold at a heavy discount. To facilitate the borrowings of Government and for the maintenance of credit, a State-aided bank was deemed indispensable. Government, therefore, subscribed one-fifth of its capital and shared in the privilege of voting and direction. The charter prescribed certain restrictions on the constitution as well as the operations of the Bank. The Bank's rate of interest was limited to a maximum of 12 per

cent. with a view to bringing about a permanent reduction in the rate of interest. In 1823 the Bank was given the power to issue notes. In 1839 the Bank was given the power to open branches and to deal in inland exchange. It was at this time that the present restriction against dealing in foreign exchange was introduced into the Bank Act, but it was a restriction which, we are told, was introduced by the Bank authorities themselves. There was no legal bar at any time to joint-stock banks registered in India engaging in the financing of foreign trade and in operations connected with foreign exchange except such restrictions as were placed on the Presidency Banks. The Bank of Bombay was established in 1840 and the Bank of Madras in 1843, with a share capital of Rs. 50 lakhs and Rs. 30 lakhs respectively, of which Government subscribed Rs. 3 lakhs in each case, and both were given the right of note issue. The major portion of the shares in all the three Banks was originally subscribed by Europeans. The Bank of Bombay became involved in the speculative crisis of 1862-65 and it went into liquidation in 1868. But in the same year a new bank with the same name was formed with a capital of Rs. 100 lakhs. All these Banks were deprived of the power of note issue in 1862 and were given as compensation the free use of Government balances. The Presidency Banks Act of 1876 regulated and restricted the business of these Banks and these restrictions and regulations continued up to the amalgamation of the three Presidency Banks in 1921. The Government disposed of their shares in all the three Banks in the year 1876, and the Act of 1876 did not, therefore, provide for Government directors on the Boards of the Banks. On the 27th January 1921 when the three Banks were amalgamated, they had among themselves 59 branches and a total paid-up capital of Rs. 375 lakhs and a total reserve of Rs. 345 lakhs. The Imperial Bank of India which was founded, as a result of the amalgamation is governed by Act XLVII of 1920, which also imposes certain restrictions on its operations.

Joint-stock Banks.

28. The history of joint-stock banking in India from the days of the East India Company down to the present day may be divided into five periods, namely—

(i) from the early days of the East India Company to the year 1833, the last year of the crisis that overtook some of the joint-stock banks started mainly by the English agency houses;

(ii) from 1833 to 1860 when joint-stock banks with unlimited liability continued to be established mostly by European houses;

(iii) from 1860, when the principle of limited liability was introduced, to the present day.

29. The banks started in the first period were on the basis of unlimited liability. They transacted ordinary banking business and financed internal trade. They also issued notes for circulation. One of them made advances against the security of indigo factories and the block of other industries. The same Bank had London exchange business as a very important branch of its activities though it lost heavily owing to the purchase of bills of certain insolvent firms. Some of these banks were helped by the East India Company in times of crisis and one of them acted as banker to the Company. Most of the banks ended in failure owing to the combination of banking with other business and speculation.

The banks that were started during the second period were still constituted on the principle of unlimited liability and there is a mass of interesting facts and figures in regard to these institutions in Cooke's "The Rise, Progress and Present Condition of Banking in India" which gives the history of Indian banking up to 1863. Half of the banks that came into being during this period failed on account of speculation and mismanagement rendered possible by ineffective audit. Some of the banks, however, were very successful and two had branches in India and in London and one had branches in China.

The year 1860 constitutes a landmark in the history of Indian Banking. By Act VII of 1860 the principle of limited liability, which is indispensable to the raising of large amounts of capital required by modern business concerns, was first applied to the joint-stock banks. The privilege of note issue was also withdrawn from joint-stock banks about the same time. Soon afterwards, the American Civil War cut off the supply of American staple and there was an unprecedented demand in England for cotton. There was a boom in the cotton trade in India which led to a wave of speculation. Banking companies, financial associations and land reclamation companies and industrial concerns of all sorts were launched in large numbers. Almost every one of them went into liquidation. Even the original Bank of Bombay, as we have seen, was involved in the disaster and had to face liquidation proceedings. This crisis shook the confidence of the public in banking concerns. Between 1865 and 1870 only one bank was established, namely, the Allahabad Bank. The progress in the establishment of joint-stock banks was scarcely satisfactory up to the end of the last century, when there were only 9 banks with capital and reserve of over Rs. 5 lakhs, their total paid-up capital and reserves amounting to Rs. 1¼ crores and their total deposits to Rs. 8 crores. During the period 1871—1900 the Oudh Commercial Bank and the Punjab National Bank were established, besides the now defunct Alliance Bank of Simla.

With the wave of the *swadeshi* movement in 1906, however, there was considerable activity in banking. Between the years 1906 and 1913 the number of banks with capital and reserve of over Rs. 5 lakhs increased from 9 to 18. Their paid-up capital and reserves amounted to Rs. 4 crores and their total deposits to Rs. 22 crores. The number of smaller banks that were launched during the period was considerably larger. Some of the flourishing Indian banks of to-day were established during this period, namely, the Bank of India, the Indian Bank (Madras), the Punjab and Sind Bank, the Central Bank of India, the Bank of Baroda and the Bank of Mysore.

The years 1913 to 1924 were a critical period for joint-stock banking in India. As many as 161 banks failed during the period, and the paid-up capital of these banks amounted to about Rs. 6¾ crores. The causes of their failure are examined in a later chapter.

In the year 1925 the banks with capital and reserve of Rs. 5 lakhs and over numbered 28. The number in 1928, being the latest year for which statistics are available, is the same. The number of banks with capital and reserve between Rs. 1 lakh and less than Rs. 5 lakhs was 46 in the year 1925, and the same in 1928. In all 60 banks failed during the period, but in the case of most of them the capital and reserve was less than Rs. 1 lakh. An important Indian joint-stock bank which was established during this period was the Peoples' Bank of Northern India, Limited.

Foreign Banks.*

30. Apart from banks established in India under the Charter of the East India Company or under enactments of the Indian legislature, a number of foreign banks have operated in India from time to time. The most important of these are British banks established under a Royal Charter or English legislation. It was about the year 1836 that systematic efforts were being made in England to complete the chain of Empire Banks by the inclusion of India, especially as the popularity of overseas investment in general was increasing with the return of prosperity after the Napoleonic wars. But until 1853, the East India Company was generally successful in preserving banks in India chartered by it from the competition of English banks, though as regards the former the three Presidency Banks were not allowed to, and the other banks did not usually, transact exchange and remittance business between India and the countries overseas. Such business was considered to be commercial business attended with risk and was carried on by what were called 'Agency Houses'.

*We are indebted to Baster's 'The Imperial Banks' for a great deal of the matter in paragraph 30.

It is also possible that the relations that existed between the 'Agency Houses' and the East India Company which are referred to later on also operated as a handicap against any banks in India undertaking this class of business. The first proposal for the incorporation in London of an Anglo-Indian bank, called the Bank of India, was made in 1836 after the private agency houses had all come to grief by speculation in the thirties of the century. It was proposed that the new bank should do all banking business for the State, including foreign exchange business. Both the Government of India and the Bank of Bengal, which was the Government bank at the time, were against the new project. The former were apprehensive that the new Bank would make a profit at their expense on their annual remittances for home expenditure; and the latter stated that they would be able to extend their services to the Government and the country in all directions contemplated by the proposed Bank. The charter was therefore refused to the promoters of the new Bank. The next project was the Bank of Asia of 1840, but it also met with the same fate as the Bank of India owing to the opposition of the Agency Houses which had recovered from the disastrous failures of 1829-1832. The Agency Houses were firmly allied to the East India Company and their opposition on the ground of possible injury to their profits by the competition of the new Bank in their remittance operations was shared by the East India Company, who thought that it was not necessary to have a bank for the purpose of exchange operations. The first Anglo-Indian commercial bank to receive a Royal Charter was the Oriental Banking Corporation, which was formed by amalgamation with the Bank of Western India in 1842 at Bombay. In 1845, the Bank moved its head office from Bombay to London. The Bank obtained its charter from the Imperial Government without any reference to the Indian authorities. After the Oriental Bank came the Chartered Bank of India, Australia and China, and the Chartered Bank of Asia (afterwards the Mercantile Bank of India, London and China), both incorporated in 1853. The East India Company took up its old attitude and went so far as to doubt the Royal prerogative to grant charters to banks for operating in India on the ground that under Act 47 Geo. III it had been empowered to incorporate such banks and that that Act formed a limitation on the Royal prerogative. His Majesty's Attorney and Solicitor-General, however, drew a distinction between the business of general banking within the territories under the Government of the East India Company and the business of exchange, deposit and remittance which could be carried on by any bank under Royal Charter. Although the East India Company did not concur in this view, it considered it undesirable to give a monopoly in exchange business to the Oriental Bank and it recommended the incorporation of the

other banks without delay. Of the three chartered banks, the Oriental Bank failed in 1884; and the Mercantile Bank had to relinquish its charter in 1893 and reconstruct itself under the English Companies Act as the Mercantile Bank of India. The only English bank now operating in India under a Royal Charter is, therefore, the Chartered Bank of India, Australia and China. None of these chartered banks appears to have enjoyed the privilege of issuing notes in India.

31. Other foreign banks now operating in India are: (1) the Mercantile Bank of India; (2) the National Bank of India; (3) the Hongkong and Shanghai Banking Corporation; (4) the Eastern Bank; (5) the National City Bank of New York (with which is amalgamated the International Banking Corporation); (6) the Yokohama Specie Bank; (7) Lloyds Bank (which has taken over the business of Messrs. Cox and Co., the latter having previously absorbed Messrs. King, King and Co.); (8) the Comptoir National d'Escompte de Paris; (9) the P. & O. Banking Corporation; (10) the Imperial Bank of Persia; (11) Nederlandsche Handel Maatschappij (popularly known as Netherlands Trading Society); (12) the Nederlandsch Indische Handels Bank (popularly known as the Netherlands India Commercial Bank); (13) Banco Nacional Ultramarino; (14) Bank of Taiwan; (15) Sumitomo Bank; (16) Thomas Cook and Son (Bankers); and (17) the American Express Company. The National Bank of India was established in 1863 under the name of the Calcutta Banking Corporation with its head office at Calcutta. The name was changed to its present name in 1864 and the head office was transferred to London in 1866.

STATISTICS.

32. A table giving certain statistics relating to banks now operating in India and registered under the Indian Companies Act will be found in Appendix II.

CHAPTER III.

EXISTING CREDIT AGENCIES.

33. It will be useful at the outset to give a general description of the existing credit agencies including their functions, resources and their operations. These agencies can broadly be classified as follows :—

(1) Imperial Bank of India.

(2) Joint-stock banks.

(3) Exchange banks.

(4) Co-operative banks.

(5) Indigenous banking system consisting of money-lenders, *shroffs* and other agencies doing banking business.

(6) Land mortgage banks.

(7) Loan offices in Bengal.

(8) *Nidhis* and Chit Funds in Madras.

(9) Government.

(10) Insurance companies.

IMPERIAL BANK OF INDIA.

34. The Imperial Bank of India was formed in January 1921 by the amalgamation of the three Presidency Banks of Madras, Bombay and Bengal. It is governed by the Imperial Bank of India Act, No. XLVII of 1920. It is a commercial bank with private shareholders and competes to some extent with other banks. It inherited from its three predecessors certain functions as a bankers' bank, which, together with its increased responsibilities as the Government bankers, accounts for some of the existing restrictions imposed on its activities by its present charter and for the control exercised by the Government over the Bank. The important restrictions are :—

(i) The Bank cannot make any loan or advance—

(*a*) for a longer period than six months,

(*b*) upon the security of stock or shares of the bank,

(*c*) on the original security of immovable property.

(ii) The Bank cannot discount bills for, or lend or advance in any way to, any individual or partnership firm an amount exceeding at any one time Rs. 20 lakhs except on the security of trustee stocks, funds and securities, securities issued by certain State-aided Railways, the debentures and other securities issued by district boards under the authority of the legislature, and goods or documents of title thereto.

(iii) The Bank cannot discount or advance on the security of any negotiable instrument of any individual or partnership firm payable at the town or place where it is presented for discount, which does not carry on it the several responsibilities of at least two persons or firms unconnected with each other in general partnership.

(iv) The Bank cannot grant unsecured overdrafts in excess of Rs. 1 lakh.

(v) The Bank cannot open accounts in the London office for persons other than its own constituents.

The Bank is generally prohibited from transacting any business not specified in the Act, foreign exchange business being one of the excluded items.

35. The Government exercise control over the Bank in the following ways :—

(1) They have power to issue instructions to the Bank in respect of any matter, which, in their opinion, vitally affects their financial policy or the safety of Government balances.

(2) They can appoint four Governors to the Central Board of the Bank.

(3) They appoint the Managing Governors who are two in number and who are the Chief Executive Officers at the head of the Bank, after consideration of the recommendations of the Central Board of the Bank.

(4) They are entitled to require the Central Board to furnish any information touching the affairs of the Bank, and to produce any document of the Bank, and may require the publication of the statement of the Bank's assets and liabilities at such intervals and in such form and manner as they think fit.

(5) They may appoint such auditors as they think fit to examine and report on the accounts of the Bank.

36. Government business transacted by the Imperial Bank of India and its branches may broadly be summarised as under :—

(*a*) It does the treasury work of Government free of cost. It receives all collections from the general public for credit to Government and Government may draw on any of its head offices or branches in India.

(*b*) It manages the public debt of the Government of India and provides the machinery for the flotation of loans. The London office of the Bank also manages the rupee debt in London, receiving a fixed remuneration for this work.

37. The other banking functions performed by the Imperial Bank of India are :—

(*a*) It is the bankers' bank. Most of the leading banks in India keep their cash balances other than till money with the Imperial Bank of India. In 1925 these balances fluctuated between such wide limits as Rs. 13½ crores and Rs. 2 crores. The following later figures were furnished by the Bank :—

Total Bankers' balances with the Imperial Bank of India.

(In lakhs.)

Date.	Exchange Banks.	Indian Joint-Stock Banks.
	Rs.	Rs.
31st March 1928	3,20	81
30th September 1928	3,71	1,12
31st March 1929	3,28	81
30th September 1929	2,02	90
31st March 1930	1,88	81
30th September 1930	1,88	1,05

(*b*) It manages the Clearing Houses. There are eleven Clearing Houses in India in the principal cities. These conduct their operations in the precincts of the Imperial Bank of India which supplies the necessary supervising staff.

(*c*) With a view to increasing banking facilities and to fostering among the Indian people the habit of banking and investment, the Imperial Bank of India was placed by

Government under a statutory obligation to open not less than 100 new branches within the first five years of its inauguration. This obligation was duly fulfilled and 102 new branches were opened by 31st March 1926 of which 50 were opened at places where there was already a branch of one or other of the Indian joint-stock banks. Several of the branches, however, have not yet reached a profit-earning stage.

At places where the Imperial Bank of India has no branches, it utilizes the services of joint-stock banks or a leading local merchant or *shroff* for the collection of bills and cheques. A list of the places where the Bank has recognised agents for collection business is given in Appendix III of the Volume of Written Evidence.

38. During the busy season when the Bank rate is 6 per cent. or above, the Paper Currency Department may grant loans to the Imperial Bank of India to an amount not exceeding Rs. 12 crores by transferring to that Department internal bills of exchange or *hundis* of an equivalent amount. The Bank also provides remittance facilities to the exchange and other banks and also to the public. The rates charged by the Bank are subject to maxima laid down by Government and differ according to circumstances:

(*a*) When the purchaser is a member of the public, the rates are 1/4 per cent on sums up to Rs. 1,000, 1/8 per cent on sums between Rs. 1,000 and Rs. 10,000, and 1/16 per cent on sums above Rs. 10,000.

(*b*) If another bank wishes to purchase remittance through the Imperial Bank of India to a place where the purchaser has no branch, it pays the usual rates, mentioned above.

(*c*) Where a bank purchases a transfer from one of its branches to another, the rate for sums above Rs. 10,000 is reduced to 1/32 per cent.

39. As a result of the recommendations of the Royal Commission on Indian Currency and Finance, 1926, a Bill was introduced into the Indian Legislative Assembly in January 1927 providing among other things for the establishment of a Reserve Bank for India. For reasons which are now well-known, the Bill failed to become law. The present position regarding the control of currency and credit is, therefore, the same as that described by the Royal Commission on Indian Currency and Finance, 1926. "The Government controls the currency. The credit situation is controlled as far as it is controlled at all, by the Imperial Bank. With divided control, there is likelihood of divided counsels, and failure to co-ordinate".

The two tables below give in a convenient form some available statistics relating to the Imperial Bank.

I.—Capital, Reserve, Deposits and Cash Balances of the Imperial Bank of India.

(In lakhs of rupees.)

31st December.	Capital.	Reserve and Rest.	Government or Public Deposits.	Private Deposits.	Proportion per cent. of Government Deposits (column 3) to		Cash Balances.
					Total Capital and Deposits (columns 1 to 4).	Private Deposits (column 4).	
	1	2	3	4	5	6	7
	Rs.	Rs.	Rs.	Rs.	Per cent.	Per cent.	Rs.
1922 . .	5,62	4,33	14,16	57,00	17·4	24·8	15,07
1923 . . .	5,62	4,55	8,57	74,19	9·2	11·5	15,01
1924 . . .	5,62	4,80	7,50	76,71	7·9	9·9	15,60
1925 . . .	5,62	4,93	5,46	77,83	5·8	7·0	17,47
1926 . . .	5,62	5,09	6,45	73,90	7·1	8·7	20,90
1927 . . .	5,62	5,24	7,20	72,07	8·0	10·0	10,89
1928 . . .	5,62	5,39	7,95	71,30	8·9	11·1	10,57

II.—Figures of public and other deposits, loans, etc., of the Imperial Bank of India in the last week of March and September each year from 1921.

(In lakhs of rupees.)

—	Public Deposits.	General Deposits.	Loan from Paper Currency.	Banks' Investments.	Loans.	Cash Credits.	Bills.	Cash.	Percentage of cash to Liabilities.	Bank rate cent.
1921.										
March . . .	5,31	72,19	...	12,17	16,38	22,84	9,62	22,06	26·32	6
September . .	8,50	83,75	...	15,77	23,60	23,18	8,03	29,71	31·70	5
1922.										
March . . .	10,08	57,08	2,00	10,32	18,11	29,14	9,01	20,48	25·47	8
September . .	13,36	73,19	...	10,04	17,94	26,72	4,22	36,73	41·34	4
1923.										
March . . .	20,53	53,63	...	9,49	18,79	31,30	8,86	14,44	18·98	8
September . .	15,19	75,89	...	12,70	15,15	30,55	4,71	39,40	41·18	4
1924.										
March . . .	26,02	71,21	12,00	11,83	27 21	43,07	15,39	18,20	16·49	9
September . .	24,23	73,53	...	16,78	16,13	37,07	5,78	28,30	28·61	5
1925.										
March . . .	26,14	69,52	8,00	16,02	21,99	34,19	18,67	19,34	15·44	7
September . .	9,07	78,99	...	16,19	13,97	28,15	5,59	31,98	35·95	5
1926.										
March . . .	10,59	73,77	...	15,87	17,87	35,82	6,08	25,23	26·85	6
September . .	10,20	81,48	..	20,52	11,84	21,09	4,95	50,39	49·63	4
1927.										
March . . .	22,35	67,30	2,00	20,64	18,49	34,12	7,03	18,80	20·34	7
September . .	12,55	71,61	...	21,53	10,92	23,72	5,98	50,37	45·64	5
1928.										
March . . .	4,91	73,08	7,00	21,72	12,25	31,50	15,91	11,07	13·60	7
September . .	6,91	71,96	...	23,29	10,64	25,30	4,30	33,47	29·46	5
1929.										
March . . .	5,92	71,70	2,00	21,59	10,04	32,42	11,04	10,64	13·46	8
September . .	20,04	69,64	...	32,77	8,50	22,90	3,48	30,82	35·84	5
1930.										
March . . .	20,11	70,01	...	30,49	10,05	31,74	7,52	19,18	21·00	7
September . .	13,18	75,01	...	23,55	17,45	28,66	2,41	25,61	28·32	5
1931.										
March . . .	11,92	70,43	...	20,74	12,11	29,38	5,32	13,38	15·90	7

JOINT-STOCK BANKS.

40. At the end of 1928, which is the latest year for which statistics are available, there were 28 joint-stock banks in India which had capital and reserve of Rs. 5 lakhs and over. Of these, nine, namely, the Central Bank of India, the Allahabad Bank, the Bank of India, the Punjab National Bank, the Bank of Baroda, the Peoples Bank of Northern India, the Bank of Mysore, the Indian Bank and the Punjab and Sind Bank had deposits of

Rs. 1 crore and over. The deposits of the first five exceeded Rs. 5 crores in each case.

41. All the Indian joint-stock banks are registered under the Indian Companies Act. A complete statement of all banking institutions in the various provinces registered under the Indian Companies Act is printed as Appendix II to this report. The Act imposes no restrictions on the business which these banks may do. The bigger banks perform the ordinary business of banking and, among other services, receive deposits and make loans and advances, including the discounting of bills. They also take part in the movement of produce from the village to the exporting port and in the distribution of imports from the ports of entry to the distributing centres. The business of these banks so far as the agriculturists are concerned is usually confined to the larger landholders, the planting community and others who possess tangible and marketable security. The smaller banks are generally loan offices which advance money to the professional and agricultural classes. One or two Indian joint-stock banks undertake business in foreign exchange, but their turnover in this is so small that they are not ordinarily classed as exchange banks.

The following statement gives certain statistics relating to joint-stock banks with capital and reserves of Rs. 1 lakh and over for a number of years. No statistics are available regarding joint-stock banks with capital and reserves of less than Rs. 1 lakh.

Capital and Reserves, Deposits and Cash Balances of Indian Joint-Stock Banks.

Year.	Class A. Banks with Capital and Reserves of Rs. 5 lakhs and over.				Class B. Banks with Capital and Reserves of Rs. 1 lakh and over but less than Rs. 5 lakhs.			
	No. of Banks.	Capital and Reserves.	Deposits.	Cash balances.	No. of Banks.	Capital and Reserves.	Deposits.	Cash balances.
		Rs. (Lakhs).	Rs. (Lakhs).	Rs. (Lakhs).		Rs. (Lakhs).	Rs. (Lakhs).	Rs. (Lakhs).
1922 .	27	10,64	61,64	12,04	41	1,11	3,38	56
1923 .	26	9,73	44,43	7,37	43	1,11	3,26	61
1924 .	29	10,71	52,50	11,30	41	1,08	2,69	35
1925 .	28	10,60	54,49	10,10	46	1,18	3,42	68
1926 .	28	10,84	59,68	9,12	47	1,26	3,47	82
1927 .	29	11,08	60,84	7,70	48	1,22	3,46	52
1928 .	28	11,10	62,85	8,19	46	1,20	3,50	52

Exchange Banks.

42. There are in all 18 exchange banks doing foreign exchange business in India. All of them are non-Indian, and two are concerned mainly with tourist traffic. The principal business of the other banks is the financing of India's foreign trade. They receive deposits both on current and savings bank account, receive fixed deposits, purchase bills in foreign currencies, make loans against shipping and other documents, and finance imports of bullion. They also play some part in the financing of the inland trade, mainly on account of goods or produce in transit prior to export or immediately subsequent to import. But having regard to the fact that all the information that is available to the Committee is the consolidated statement for all the foreign banks given on page 336, it is not possible for us to state what portion of the funds of these banks is employed in the foreign trade of India and what portion in inland business. The table on page 336 shows that out of the total resources of Rs. 88 crores Rs. 10 crores were invested in bills of exchange in transit to London and elsewhere overseas. The terms for the deposits of these banks are, as a rule, higher than those of the Imperial Bank of India but lower than those of the Indian joint-stock banks. While the Imperial Bank of India does not allow interest on current accounts, the exchange banks generally allow 2 per cent. on daily balances exceeding a minimum limit up to Rs. 1 lakh. The exchange banks do not publish any statements relating to their Indian business separately. The table below gives such figures as are available.

Capital and Reserves, Indian Deposits and Cash Balances of the Exchange Banks in India.

Year.	Number of banks.	Capital, Reserve and Rest.	Deposits in India.	Cash balances in India.
		(£1,000)	(£1,000)	(£1,000)
1922 . . .	18	112,221	55,038	12,132
1923 . . .	18	140,103	51,332	10,859
1924 . . .	18	130,464	52,976	12,275
1925 . . .	18	138,311	52,909	7,062
1926 . . .	18	148,003	53,658	8,046
1927 . . .	18	180,919	51,647	6,098
1928 . . .	18	187,923	53,354	6,042

Co-operative Banks.

43. Co-operative banks are established under the Co-operative Societies Acts. They consist of the provincial bank at the apex, the central banks which are affiliated to the provincial bank, and the primary societies which are mostly affiliated to the central banks. At the end of 1929 there were 18 co-operative banks with capital and reserves of Rs. 5 lakhs and over, and 140 with capital and reserves of between Rs. 1 lakh and Rs. 5 lakhs. Under the Acts and the rules of the Co-operative Department, the co-operative banks and societies are debarred, except with the general or special sanction of the Registrar, from lending to anyone who is not a member of the institution. Most of the primary societies are agricultural and their main function is to supply credit to the agriculturist and educate him in the principles and practice of co-operation and thrift. The provincal banks assist the central banks by advancing funds for use as part of their working capital and also by the grant of ordinary and special cash credits to enable the central banks to work on a low level of till money. The provincial banks obtain their finance mainly from deposits from the public; but central banks and primary societies also contribute to the resources of the provincial banks in the shape of share capital and deposits of their surplus funds. The provincial banks have also arrangements for cash credits and overdrafts with the Imperial Bank of India.

44. The principal function of the central banks is to supply the working capital needed by their affiliated primary societies. They obtain their finance partly from the apex provincial bank and partly from deposits by the public. The majority of shares in central banks are held by affiliated societies. The more successful central banks have built up substantial reserves. The primary societies maintain a register of assets and liabilities of each individual member and a copy of this is kept by the central bank.

45. There are also non-agricultural societies both with limited and unlimited liability which cater to the needs of a great variety of persons including officers of Government, employees of industrial companies, contractors, small traders, fishermen, weavers, artisans and depressed classes. Prominent among these societies, from the point of view of banking, are co-operative urban banks. These are generally institutions with limited liability, drawing their funds largely from deposits and financing the small trader and the small industrialist.

The following table gives certain statistics relating to the number, capital and reserves, and deposits and loans of co-operative banks for a number of years :—

Capital and Reserves, and Deposits and Loans received, of Co-operative Banks.

(In lakhs of rupees.)

Year.	Class A. Banks with Capital and Reserves of Rs. 5 lakhs and over.			Class B. Banks with Capital and Reserves of Rs. 1 lakh and over, but less than Rs. 5 lakhs.		
	Number.	Capital and reserves.	Deposits and loans received.	Number.	Capital and reserves.	Deposits and loans received.
1922-23 . .	5	44	3,41	63	1,31	5,02
1923-24 . .	8	62	4,14	72	1,73	5,87
1924-25 . .	8	69	4,51	93	1,70	8,04
1925-26 . .	10	91	5,38	104	2,03	9,30
1926-27 . .	12	1,12	7,01	119	2,25	11,98
1927-28 . .	16	1,50	8,83	125	2,47	13,16
1928-29 . .	18	1,63	9,01	140	2,77	14,87

46. The Government help the co-operative organization in various ways:

(1) They give occasional assistance by means of money grants or loans to particular banks or societies.

(2) They give subsidies to co-operative federations which are organizations formed by the societies themselves for the purposes of auditing primary societies, supervising primary societies in backward areas, and training probationers.

(3) They provide a staff of officials to direct the audit of co-operative societies and to supervise and stimulate their activities.

The avowed policy of Government towards the movement is to encourage non-official administration, so far as this is consistent with their ultimate responsibility to secure the advance of the movement on sound lines, though there is still, particularly in some provinces, a large measure of official control.

(4) They have guaranteed interest on long-term debentures in certain cases.

(5) They have granted the following general concessions :—

(i) Exemption from various taxes, *e.g.*, income-tax, stamp duty and registration fees.

(ii) Transfer of funds at par (through the agency of Government) from one society or bank to another for co-operative purposes.

(iii) Freedom of the shares or interest of members in co-operative societies from liability to attachment by the decree of a civil court.

(iv) Prior claim over other creditors in enforcing recovery of their dues in certain cases. In Bombay the prior claim has been replaced by a "first charge".

Indigenous Banking System.

47. *Shroffs* and money-lenders form an important credit agency in the Indian banking system. In many parts of India they are still the only source of credit. The difference between *shroffs* and money-lenders is that while the latter work generally with their own capital, the former use also borrowed money either in the form of deposits from the public or by drawing and discounting *hundis*. At times the village money-lender borrows from the urban money-lender or a city *shroff*. The various classes of money-lenders and *shroffs* and their methods of business are described in later chapters.

48. A certain number of indigenous *shroffs* and bankers work largely on modern lines and transact all kinds of business which the ordinary joint-stock banks transact, including the issue of pass-books and cheque books. They do not, however, publish balance-sheets and their management is entirely in the hands of a single proprietor or a firm of proprietors. A reference may be made in this connection to the Bank of Chettinad, Limited, recently registered in the Madras Presidency under the Indian Companies Act for carrying on the business of banking and all other lines of business which Nattukkottai Chettiyars have been accustomed to do, with a subscribed capital of Rs. 2 crores and a paid-up capital of Rs. 1 crore and with the head office in Chettinad.

Land Mortgage Banks.

49. Land mortgage banks have been started under the ægis of the co-operative movement in the Punjab, Madras, Bombay, Bengal and Assam, but they are not sufficiently large in number or in size to meet fully the requirements of the Indian agriculturists for long-term credit for the redemption of mortgages of land, for the clearance of debt and for land improvements. The number of existing institutions and their membership and capital are given below.

*Land Mortgage Banks (on the 30th June 1930).**

—	Number of Societies.	Membership.	In thousands. Share Capital and Reserve.	Deposits.	Loans.	Total Working Capital.
			Rs.	Rs.	Rs.	Rs.
Ajmer-Merwara	13	757	8	..	60	68
Assam	5	1,593	88	3,00	74	4,62
Bengal	4	2,099	78	2	3,30	4,10
Bihar and Orissa	No land mortgage banks.					
Bombay	3	749	51	24	75	1,50
Burma	2	281	4	47	..	51
Central Provinces	No land mortgage banks.					
Delhi	No land mortgage banks.					
Madras	28	3,004	2,28	2,43	7,97	12,68
North-West Frontier Province.	No land mortgage banks.					
Punjab	12	5,625	1,75	14,19	6,84	22,78
United Provinces	1	34	1	..	8	9
Total	68	14,142	6,33	20,35	20,28	46,96

Loan Offices in Bengal.(1)

50. Of a different class from the land mortgage banks referred to above, which have as their object the amelioration of the conditions of the agriculturist, are the loan offices in Bengal started originally along the lines of land mortgage banking. On the 31st of March 1929 there were 782 loan offices at work, out of which only 26 were in Calcutta and the rest in the mofussil. Their paid-up capital is generally small and only 13 have a paid-up capital of Rs. 1 lakh or more. They attract funds by deposits and the total working funds with loan offices on the 31st March 1929 are estimated at about Rs. 9 crores. The majority of loan offices carry on land mortgage banking in a greater or less degree and also grant loans against ornaments. Some loans are on personal security. A

* The dates vary with reference to the Co-operative year in each province; the latest figures available are given.

(1) Bengal, paras. 420—463.

few carry on trading with banking, but this practice is being gradually abandoned. Many loan offices in Calcutta advance money against Calcutta house properties, while some, both in Calcutta as well as in the mofussil, undertake commercial banking operations. Some loan offices grant loans against crops in godowns or in transit. A few finance industries by advances against block.

Some of these loan offices are called "banks" in the annual reports of the Registrar of Joint Stock Companies while the rest are styled as loan offices. We are told that this classification is based on the memoranda of association.

Nidhis AND CHIT FUNDS IN MADRAS.(1).

51. The *nidhis* were originally started as mutual loan societies, but in the course of years they have developed into semi-banking institutions. They receive deposits either in the form of deposits proper, or of withdrawable share capital paid in monthly instalments, and they make loans for all purposes. All of them are registered under the Indian Companies Act, five as banks and the rest as *nidhis*. On the 31st March 1929, there were 228 *nidhis* in the Presidency of which 123 were in one district alone. The total paid-up capital of these 228 institutions is about Rs. 2½ crores and their deposits and reserve funds amount to about Rs. 1½ crores. The loans are generally made to members, but surplus funds are made available to non-members also.

52. The "chit fund" is a loose organization of a small number of people and is a very useful institution for facilitating savings. These savings are pooled together and made available to members in various ways which depend upon the particular system followed. The chit funds are found chiefly in the south and south-west of the Madras Presidency, and to a lesser extent in other parts. They are also very numerous in the Travancore State.

GOVERNMENT.

53. The operations of the Government as a credit agency fall under several heads :—

(i) They grant *takavi* loans to agriculturists for agricultural operations, land improvement, and other prescribed objects.

(ii) They grant loans under the State Aid to Industries Acts in the provinces of Bihar and Orissa and Madras, and under the Industrial Loans Act in the Punjab, for the purpose of promoting nascent and cottage industries.

(iii) They purchase debentures issued by land mortgage banks.

(iv) They grant loans to co-operative societies for various purposes.

(1) Madras, paras. 438—496.

(v) They grant loans to municipalities and district boards. They advance small sums of money to their own officers against the security of their provident funds and for the purchase of means of conveyance. Loans are also granted to land-holders under exceptional circumstances.

The financial assistance rendered by Government under all the above heads is, however, of no great magnitude.

54. In addition to floating annual loans mainly for their capital expenditure, the Government are continually in the market for short-term funds through the medium of treasury bills. They also provide facilities for savings by the small investor through postal savings banks and postal cash certificates. The following statements give some statistics relating to the borrowing operations of Government during the five years ending with 1929-30 :

New Loan Issues.

(In lakhs of rupees.)

—	Cash.	Conversions.	Total.	Description.
1925-26 . . .	No cash subscriptions invited.	30,61	30,61	5th issue of 5 per cent. income-tax free loan 1945-55 and 5 per cent. taxable ten-year bonds 1935.
1926-27 . . .	16,77	12,73	29,50	4 per cent. taxable loan 1960-70 at issue price Rs. 88 per cent.
1927-28 . . .	8,21	11,23	19,54	4 per cent. taxable 1934-37 loan at issue price Rs. 94-8 per cent.
1928-29 . . .	23,92	11,12	35,04	4½ per cent. taxable 1955-60 loan at issue price Rs. 94 per cent. and 4½ per cent. taxable (1934) bonds at Rs. 97-8 per cent.
1929-30 . . .	13,60	23,65	37,25	5 per cent. taxable 1939-44 loan at issue price Rs. 96-8 per cent. and 2nd issue of 5 per cent. taxable 1935 bonds at issue price Rs. 98 per cent.

During 1930-31 the loan issued was in the form of 6 per cent. taxable 1933-36 bonds at par and amounted to Rs. 29,71 lakhs, made up of cash subscriptions Rs. 21,39 lakhs and conversions Rs. 8,32 lakhs.

Statement of Treasury Bills issued and paid off.

(In lakhs of rupees.)

	Issued	Paid off.	Net issued.
1925-26	..	..	..
1926-27	..	..	..
1927-28	30,37	22,78	7,59
1928-29	22,38	25,97	—3,59
1929-30	64,74	32,70	32,04

The amount of treasury bills outstanding on 31st March, 1930, stood at Rs. 36,04 lakhs.*

Issues and discharges of the Postal Cash Certificates.

(In lakhs of rupees.)

	Issues.	Discharges.	Net.	Outstandings at the end of the year.
1925-26	9,55	1,70	7,85	20,97
1926-27	7,53	1,82	5,71	26,68
1927-28	6,09	2,07	4,02	30,70
1928-29	4,91	3,31	1,60	32,30
1929-30	7,16	4,46	2,70	35,00

Postal Savings Banks.

(In lakhs of rupees.)

	Receipts.	With-drawals.	Net Deposits.	Outstandings at the end of the year.
1925-26	19,79	18,20	1,59	27,23
1926-27	21,17	18,89	2,28	29,51
1927-28	24,00	20,84	3,16	32,67
1928-29	26,22	24,40	1,82	34,49
1929-30	27,28	24,64	2,64	37,13

* On the 31st March 1931, the amount of treasury bills outstanding stood at Rs. 55,38 lakhs.

INSURANCE COMPANIES.

55. The total number of companies transacting life, fire, marine and other classes of insurance business in India, according to the Insurance Blue Book of 1929, is 245, of which 97 are Indian and 148 non-Indian (including 72 British).

Insurance companies, both Indian and non-Indian, occupy a very important place in the Indian financial system, as they hold for long periods a considerable portion of the savings of the people. The net premium income from business done in India under all classes of insurance, received by both Indian and non-Indian companies, stood at the close of the year 1928 at about Rs. 10 crores, of which over Rs. 5 crores went to non-Indian companies. The total assets in India of non-Indian companies on the same date were Rs. 30 crores, while those of Indian companies were about Rs. 23 crores.

Besides lending a certain amount to their policy-holders, these companies invest a substantial portion of their resources in Government securities and treasury bills; thereby relieving the stringency in the money market to a large extent. Some of the Indian companies also (1) invest their funds in mortgage of landed properties, and in purchasing debentures of co-operative banks, and shares and debentures of industrial banks, or otherwise financing the latter; and (2) make deposits with, or grant loans to, mofussil banks and loan offices which in their turn often utilize these resources in financing indigenous industries. A few Life Offices also invest a portion of their funds in land development somewhat on the lines of Building Societies in England.

CHAPTER IV.

RURAL FINANCE.

INTRODUCTORY.

56. The problem of rural finance and certain allied questions have been thoroughly investigated by the Provincial Banking Enquiry Committees. It is not necessary to recapitulate all the facts and figures that find a place in the provincial reports. Only the salient points which will have a bearing on our final recommendations are here discussed. The recommendations of the Provincial Committees have been brought together in Appendix III and an indication is given therein as to how each recommendation has been dealt with by us.

THE ECONOMIC POSITION OF THE AGRICULTURIST.

57. Before we proceed to discuss the problem of rural finance proper, we desire to give a very brief account of the economic position of the agriculturist, as it has an obvious bearing on the problem. There are no reliable economic data giving anything like a precise estimate of the cost of production, the value of produce raised and the income of the agriculturists from subsidiary occupations from which their family budgets can be constructed so as to enable us to furnish accurate statistical information regarding their actual economic condition. Nevertheless the reports of the Royal Commission on Agriculture and other Commissions and Committees* which have reported from time to time on the general condition of the people, and the reports of the Provincial Banking Enquiry Committees and the evidence and other materials collected by the Provincial Committees, contain a mass of useful information bearing on the general economic position of the Indian agriculturist. It is unnecessary for us here to reproduce the whole of that information or to enter into a detailed examination of the various aspects of this important question. Our main purpose will be served by sketching in broad outlines some of the salient features emerging from the information referred to above. The outstanding feature of Indian rural economy which is bound to arrest the attention of any one who enters on an investigation of the question is the appalling poverty of the rural population. The Simon Commission make the following observations at page 384, Vol. I of their Report on the general condition of the people :—

> "The low standard of living to which the mass of India's population attain is one of the first things that strike

* Indian Famine Commissions, 1880, 1898 and 1901, Indian Irrigation Commission, 1903, Indian Taxation Enquiry Committee, 1925, Economic Enquiry Committee, Madras, 1931, and Depression Enquiry Committee, Madras, 1931.

> a Western visitor. Wants are few, diet is simple, climate is usually kind, and a deep-rooted tradition tends to make the countrymen content with things as they are. But the depth of the poverty, the pervading presence of which cannot escape notice, is not so easily realised. There have been no official estimates of income per head since 1901-2, when Lord Curzon stated in his budget speech that the average income per inhabitant of British India had been estimated at Rs. 30, *i.e.*, £2 a year. Since the War, certain Indian and European professors of economics attached to Indian Universities have, by different statistical methods, attempted to measure the total income of the country in particular years. * * * *. Such estimates are necessarily based on inadequate data, for the unsatisfactory nature of the statistical material available has been the subject of comment by almost every committee or commission that has enquired into the economic affairs of India. * * * Even if the most optimistic of the above estimates is adopted, the result is that the average income of India per head in 1922 was equivalent, at the prevailing rate of exchange, to less than £8, while the corresponding figure for Great Britain was £95. The contrast remains startling, even after allowing for the difference between the range of needs to be satisfied."

This estimate does not give a picture of rural India separately. The income of the agricultural population per head when separately assessed will be much smaller. From the reports of the Provincial Committees and other published statistical information, the total gross value of the annual agricultural produce would work to about Rs. 1,200 crores on the basis of the 1928 price levels. On this basis and taking into consideration the probable income from certain subsidiary occupations estimated at 20 per cent. of the agricultural income, and ignoring the rise in population in the last decade and the fall in prices since 1928, the average income of an agriculturist in British India does not work out at a higher figure than about Rs. 42 or a little over £3 a year. Thus the general poverty of the agricultural classes is a matter which is beyond dispute.

58. The proportion of the population of India living on agriculture is very large and it has been steadily on the increase. This proportion was 61 per cent. in the year 1891. It rose to 66 per cent. in 1901 and to 73 per cent. in 1921. The census figures for 1931 are not available to us; but it may fairly be presumed that the proportion has risen still higher in 1931. The average extent of land that the Indian agriculturist cultivates is comparatively

very small and the individual fields which make up his "holding" are generally scattered. The total net area sown with crop in 1927-28 was about 220 million acres, which gives roughly a little over an acre per head of the agricultural population or about 6 acres to an agricultural family of five persons. Many authorities, among whom Mr. Darling may be mentioned, consider that this extent of an average holding is inadequate to maintain an agricultural family in ordinary comfort in the conditions which exist in India at the present day. Various estimates have been attempted as to what an economic holding in India should be and the minimum extent of land which is required for the subsistence of an average agricultural family. But having regard to the widely differing conditions of the soils and other factors in the several parts of the country, we do not consider that any useful purpose will be served by an examination of these estimates. Practically all Provincial Banking Enquiry Committees agree that the bulk of the agricultural holdings in India are too small and agricultural incomes are very low.

59. Moreover, nature exercises a powerful influence on the fortunes of the agriculturist, and the Indian cultivator is in a large measure exposed to the vicissitudes of seasons. The land in areas which are not protected by irrigation works cannot be cultivated, if the monsoon is not favourable. Of the total cultivated area in the country about 16 per cent. only has irrigation facilities from rivers, tanks or wells, while the remaining 84 per cent. depends merely on rainfall. These unfavourable conditions might have been mitigated to some extent by a well-conceived policy of irrigation by the State, particularly in regard to minor works, to which reference has been made in paragraph 279 of the report of the Royal Commission on Agriculture in India. There is water in many localities which are now not productive owing to the want of irrigation facilities, and the problem of making water available to cultivators is one on the solution of which by the State, the prosperity of the agriculturist as such undoubtedly depends largely. The frequency of failure of crops owing to drought and flood and pests, and the low vitality and high mortality of the live-stock render the economic position of the cultivator worse still.

60. The produce from land per head of the population and per acre is low compared with that of many other countries. There has been no substantial increase in recent years in the total area of the cultivated land, the average annual net area sown with crops in the five years ending with 1927-28 being 225 million acres against 217 million acres in the preceding quinquennium. The consequence is that the average cultivator still continues to live on an insufficiency of food which reacts on his physical capacity for work and largely accounts for the high percentage of mortality in the country. Dr. Harold M. Mann, for sometime Director of Agriculture in Bombay, drew very pointed attention to this aspect of Indian

rural economy. These conditions cannot be wholly ascribed to an *undue* increase in population and consequent pressure on land. Let us compare the growth of population in India with that in England. Taking the three decades for which census figures are available for both countries, we find that in England and Wales the increase of population between 1891 to 1901 was 12·17 per cent., between 1901 to 1911, 10·91 per cent. and between 1911 to 1921, 4·8 per cent. while the increase of population in British India during the same decades was respectively 2·4 per cent., 5·5 per cent. and 1·3 per cent.* Nor can the low productivity be justly ascribed to the inefficiency or ignorance of the Indian cultivator. The standard of inherited skill in husbandry of the Indian cultivator is high, but the farmers of other countries are undoubtedly in a position of greater advantage inasmuch as they are aided by the discoveries of scientific research made available to them by an enlightened State policy in regard to agriculture.

In this connection we should like to invite attention to the comparatively low expenditure on agriculture in India by the Central and Provincial Governments. The following table which is given on page 176 in "The Punjab Peasant" by Mr. Darling will be found interesting.

Country.	Per 1,000 of population.	Per 1,000 acres cultivated.
	Rs.	Rs.
United States (1919-20)	1,020	210
United Kingdom (1921)	960	1,380
Germany (1910)	945	705
Italy (1925-26)	255	184
British India (1924-25)	34	30

61. Another potent factor which contributes to the extreme economic weakness of the Indian agriculturist is the inadequacy of subsidiary occupations which supplement his slender income from agriculture. As early as 1880, the Indian Famine Commission pointed out that "A main cause of the disastrous consequences of Indian famines and one of the greatest difficulties in the way of providing reliefs in an effectual shape is to be found in the fact that the great mass of the population directly depends on agriculture and that there is no other industry from which any considerable part of the community derives its support. The failure of the

* "A Study in Indian Economics" by Pramathanath Banerjee, M.A., 1928, page 37.

usual rains thus deprives the labouring classes as a whole not only of the ordinary supplies of food obtainable at prices within their reach, but also of the sole employment by which they can earn the means of procuring it. The complete remedy for this condition of things will be found only in the development of industries other than agriculture, and independent of fluctuations of seasons. With a population so dense as that of India, these considerations are of the greatest weight and they are rendered still more serious by the fact that the numbers who have no other employment than agriculture are in large parts of the country greatly in excess of what is really required for the cultivation of the land. So far as this is the case, the result must be that the part of the population which is in excess of the requirements of agriculture eats up the profit that would otherwise spring from the industry of the community. It is not surprising in a country thus situated that material progress is slow".

62. A recent investigation into the economic condition of the agriculturist in certain districts of the province of Madras was made by a Committee appointed by the Madras Government with the concurrence of the provincial legislature and their report was published this year. That committee summarized certain factors affecting the economic position of the cultivator in the area of their investigation. Some of the conclusions of that Committee will probably be found to apply to other parts of India also, and therefore we reproduce the relevant portions below. (Pages 98 and 99 of the report).

(1) While population has increased, extension of cultivation has not kept pace with it.

(2) There is no improvement in the condition of un-employment of agricultural labour.

(3) Fragmentation of holdings has increased and the average area of holdings has gone down.

(4) The indebtedness of the agricultural population is heavy, hampers cultivation and reduces incomes.

(5) Land is changing hands rapidly owing to many causes and ryots are unable to repay their debts except by the sale of their lands.

(6) The margins available for maintenance of the cultivator's family, after paying the assessments, are either inadequate or nil.

(7) In most rural parts the value of the agricultural produce is insufficient, after meeting the demands of the Government revenue, for the maintenance of the agriculturists; so that, while a few rich people get richer,

and a small number remain on the margin of subsistence, the majority are running into debt and losing their hold on land which is frequently changing hands.

(8) The system of land revenue is based too much on *averages* (average rainfalls, average supply of water, average outturns, average prices, etc.). The inelasticity of the system leads to low production and indebtedness. It is antiquated, and is not in keeping with the trend of land revenue policy in civilised countries. Land revenue in India is much heavier in its incidence than other taxes.

We should like to add the following other factors which affect the economic position of the cultivator in India :—

(*a*) the comparatively small spread of literacy;

(*b*) the existence of social habits which do not conduce to progress;

(*c*) limited opportunities for fuller life and for initiative and enterprise; and

(*d*) absence of definite efforts made by the Government or the people on a large scale to raise the status of the agriculturist and to effect an all-round improvement and uplift.

Among the recommendations of the committee referred to in the preceding paragraph is to be found the following :—

"To relieve unemployment, cottage industries and industries connected with agriculture (conversion of raw materials into finished products) should be started under government auspices, or private enterprises encouraged with liberal State aid".

The agriculturist has sufficient spare time on his hands to devote himself to subsidiary occupations to supplement his income from agriculture if such occupations can be pursued profitably. But he has been exposed to the full blast of competition of forces from the rest of the world and many of the industries on which he relied in the past in a system of self-sufficing economy have suffered largely from, or been wiped out by, the competition of machine-made articles.

63. It is necessary to add that the effects of the world competition are felt not only in the cottage industries but also in agriculture itself. The recent fall in the world prices of cotton, rice, wheat, jute and groundnut, only to mention a few of the principal commodities, has made the cultivator conscious of forces operating from

afar and affecting him powerfully. Here again there is no effective action by the State for avoiding or mitigating the adverse influences which affect the farmer.

64. In all parts of India the cultivator is steeped in indebtedness. We have dealt at length on the extent and effects of rural debt on the economic condition of the cultivator elsewhere in the report, as the question is intimately connected with our Enquiry. His credit needs are satisfied, if at all, inadequately and at ruinous prices. The nature of the interest in the land he cultivates varies from ownership to mere tenancy at will, and the efficiency of agriculture over large parts of the country is in consequence adversely affected by his possessing a restricted and precarious right in the land he cultivates, thus giving him no incentive to improve the land. Under the circumstances mentioned above agricultural land in parts of India can scarcely be said to form valuable security for raising capital and credit that the agriculturist certainly needs.

65. Further, the Indian agriculturist is now being drawn slowly but steadily in the sphere of influence of markets, both national and international. But here again he has neither organization nor the credit facilities to help him as in countries like the United States of America, Canada, Denmark, Germany and other European countries. The disorganized condition of the cultivators which in certain cases is accentuated by the existence of the powerful organizations of the buyers, and the lack of proper credit facilities enabling them to hold on to their crops in time of plenty, often prevent them in India from obtaining a fair price for their produce.

66. In addition to these numerous difficulties from which the agriculturist suffers, he has another serious handicap, namely illiteracy. The percentage of literacy in India is still very low, and technical education in agriculture can hardly be expected to make any progress without the back-ground of general education.

THE PROBLEM OF RURAL FINANCE.

67. Agriculture is an industry and, like other industries, requires both short-term and long-term finance, but there are certain fundamental differences between agricultural and industrial finance :—*

(1) In agriculture, the units of production are essentially a one-man concern—and the credit available for the concern is limited to the credit of one man or one family. The method of raising capital by the device of joint-stock enterprise, namely, by subscription, is not open to this industry. The limited extent to which

Vide Report of the Committee on Agricultural Credit in England 1923, and Report on Agricultural Credit in England, 1927, 'The Condition of Agriculture in the United States and Measures for its improvements', being a report by the Businessmen's Commission on Agriculture, and 'Agricultural Economics' by G. O'Brien.

a recourse to this method is recommended by some Provincial Committees in connection with the land mortgage banks is referred to later. The peculiar feature which renders farming more helpless than other branches of industries is its persistent small scale organization. While other industries tend to become concentrated in units of ever-expanding size, agriculture remains scattered, individualistic, small scale and chaotic. These peculiarities reflect themselves in the supply of capital to the agriculturist. Generally speaking, as a producer, the farmer thus remains dependent on his own resources. The savings of the general community are relatively inaccessible to him. Further, while the industrialist can capitalize the future, or raise money on "estimated" earning power, the agriculturist cannot, there being no commercial measure of these things in agriculture acceptable to the ordinary investor. While, therefore, the manufacturer raises his capital by subscription, the farmer must raise much of his capital by credit.

(2) As pointed out by the Committee on Agricultural Credit in England (1923), "in the very nature of things the agriculturist is often isolated and remote from the normal opportunities for obtaining credit. Compared with those of the manufacturer and the trader, his operations are complex, long in their cycle and subject to exceptional risks from weather and disease beyond the ordinary ups and downs of prices and wages which he suffers in common with industrialists. For the greater part of the year, and especially when he is most in need of credit, his capital is sunk in forms of wealth, difficult for any one but an expert to value and not readily chargeable as security for an advance, while his personal training and method of life are not such as to fit him to surmount these natural disadvantages and to establish that position in the credit market to which his financial stability and high standard of probity generally entitle him."

(3) Another feature of agricultural production in general, and also of particular agricultural crops, is inelasticity of supply and the comparative difficulty of adjusting the supply to fluctuations in demand. Devices which are open to the industrialist are not available, in the same degree, to the agriculturist in controlling production. On the decline of demand, an industrialist can slow down or cease production altogether but not the farmer. Output cannot be stopped on a farm as it can be in a factory; if the land is not cultivated by man, it will produce its own crops of weeds. Moreover the abandonment of the farm implies the abandonment of the home and will be undertaken far less readily than the abandonment of a workshop. The need for finance thus remains constant, though production may be unprofitable. This feature of inelasticity in production leads to a lowering in the standard of living and ultimately, to the morass of indebtedness. Indebtedness is not *per se* an evil, but the trouble arises when the debt is incurred by

a farmer who does not know the two cardinal points of farming, *viz.*, what farming costs, and what it brings him. This position becomes worse, specially in a country like India, with an illiterate peasantry.

(4) The phenomenon of over-production which may occur both in industry and agriculture creates some special difficulties for the latter. As a rule, industries are more centralised and can avail themselves of adequate credit facilities from existing machinery enabling them to withhold from the market a part of their supply and exercise a certain degree of control over the price by agreement on some scheme of restriction of production. The agriculturists, on the other hand, are totally disorganized, being scattered over a wide area, and having generally speaking, no such credit institution as can undertake the enormous task of providing them with the necessary credit for regulating the supply of their produce. Their necessity for such help is thus much greater than that of industries and the circumstances call for some special arrangement through State assistance to extend cheap facilities for credit to the cultivators in order that they may hold on to their crop for better prices. This is particularly needed in a country like India where the absence of necessary credit facilities and the illiteracy of the cultivators have made it impossible for them to safeguard their own economic interests, while their poverty, ignorance and debt obligations compel them to sell their crops for whatever price these may fetch immediately the harvesting is over.

(5) The principal security for long-term credit, which the farmer can usually offer, is the land itself. In all countries agricultural land and other forms of real property are a most unsuitable form of security in commercial banking, for land is not a readily realizable asset and its price is liable to peculiar influences, and necessitates a special machinery for ascertainment. Moreover, investments in them are so much frozen credit, so far as commercial banking is concerned. Again, there may be difficulties in connection with titles and restrictions, customary or statutory, on the right of transfer. In India, the existing restrictions on the right of transfer operate to reduce the agriculturist's credit and to increase the interest charges by increasing the risks of lending money to him. In fact, the word agriculturist as used in India comprehends a variety of persons from the cultivating proprietor (the landlord who has an absolute free-hold interest in the holding, subject only to meeting the demands of the State on the land) to a landless agricultural labourer. Indeed agricultural interests in the land may, and not infrequently do, comprise numerous intermediate interests in between the State and the actual cultivator as a result of the systems of tenures, under-tenures and sub-tenancies, which are recognised by custom or law or both. It is perfectly obvious that all these agriculturists cannot

get the same kind of financial accommodation and that in the case of some, it may not be possible to get any accommodation at all.

(6) The accomplishment of the task of successfully constructing and maintaining the machinery of rural finance, that is to say, establishing a satisfactory link between agricultural industry and the money market, between the farmer seeking credit and the capitalist seeking investment, has been found to be by no means easy in any part of the world. It is much less easy in India where farming is essentially in the hands of small farmers and is so different from other forms of productive industries that the ordinary credit machinery which serves the needs of industrialists and the traders is *prima facie* unsuitable to agriculture. Effectively to finance the cultivators of a single district or even of a taluka, the resources of a commercial bank have to be distributed amongst thousands of small borrowers. Comparatively more liquid and more easily realisable assets of the cultivator to back up a banking credit are his crops or live stock or dairy produce. Even these are precarious forms of security owing to the physical risks to which production is subject, such as floods, failure of monsoon, pestilence among live-stock and so forth. The most honest and thrifty farmer cannot under such contingencies always pay back punctually his debt; and if agricultural credit should have beneficial effects, the creditor should postpone his demand until the effects of a devastating visitation are over or a more favourable season comes round. Again, if the credit, advanced to a farmer, of a substantial sum cannot wholly be recovered from a year's harvest without starving his other economic needs, his limited repaying capacity necessitates the recovery of the same in small driblets over a number of years, out of the margin of the profits of his farming. The rapid circulation of money being essential to the success of a commercial bank and the bulk of its working capital being derived from short-term deposits or call money, a commercial bank cannot, generally speaking, obviously afford to postpone its recoveries or tie up its resources to accommodate the farmers' needs. The commercial banks therefore do not, to any appreciable extent, directly connect the agriculturists with the money market, although they can render valuable financial assistance to the agriculturists in indirect ways, as will be shown later.

68. These important differences between agriculture and other industries give rise to special problems of rural finance requiring special treatment all the world over. As stated in the Report on Agricultural Credit in England (1927), "Credit and the machinery of borrowing and lending now form an integral part of the industrial system of all civilised countries, but in almost every agricultural country, credit for agriculture has come to be treated as a special question requiring, in many cases, special organization and, generally, special legislation". Even in America, where farms are

large and agriculture much more organized, the need for special treatment of agriculture in the matter of capital and credit has been fully recognized as borne out by the following short extract from the Report of the Businessmen's Commission on Agriculture: "Assuming that the essential facts have been ascertained and are understood, it is commonly accepted that the farmer's problem may be approached and solved like any other business, industrial or economic question. This, it is submitted, involves a fallacy and if acted upon must invite confusion worse confounded. Elements of business are, however, present, it is true, and business methods must be observed; but the pursuit of agriculture presents other features so peculiar, indeed so unique, that the failure to take account of them must lead to gravest miscalculation".

69. In some western countries, especially England, a very large volume of rural credit is provided by the commercial banks. This is due mainly to the penetration into the country-side of the branch banking system. The Committee on Agricultural Credit in England (1923) ascertained from each of the five leading banks in England and Wales the precise extent of their loans to agriculturists and found that a sum of £46½ millions was the amount of loans outstanding against farmers, of which £26 millions represented loans for the purchase of agricultural land and £20 millions normal loans for current trading. The uneconomic nature of the majority of the holdings, the slenderness of the security that the agriculturist can offer and certain other causes perhaps account for the joint-stock banks in India not having provided any substantial amount of rural credit. It is chiefly on this account that the sowcar or the money-lender has been, and is still, the main source from which the cultivator derives his financial accommodation, however, uneconomic the conditions on which it is obtained may be. In order, therefore, to leave the farmer some part of the profits of his farming effort, it is necessary to devise a satisfactory system of rural finance.

70. There is also another broad aspect of the problem of rural finance. It arises out of the interest of the nation as a whole to maintain agriculture in an efficient condition and the obligation of the State in that matter. The Businessmen's Commission on Agriculture in America emphasises this aspect of Rural Finance in their report where they say "Agriculture is not merely a way of making money by raising crops; it is not merely an industry or a business; it is essentially a public function or service performed by private individuals for the care and use of the land in the national interest; and farmers in the course of their pursuit of a living and a private profit are the custodians of the basis of the national life. Agriculture is therefore affected with a clear and unquestionable public interest, and its status is a matter of national concern calling for deliberate and far sighted national policies, not only to conserve the natural and human resources involved in it,

but to provide for the national security, promote a well-rounded prosperity, and secure social and political stability."

THE FUNCTION OF CREDIT AND THE PART IT PLAYS IN AGRICULTURE.

71. The Royal Commission on Agriculture and many of the Provincial Banking Enquiry Committees have pointed out that it would be a mistake to suppose that in an easily obtainable credit alone lies the panacea for all the ills from which the Indian agriculturist suffers to-day. This is also the conclusion at which the Committees on Agricultural Credit and the Agricultural Tribunal of Investigation in England have arrived. The former at page 5 of their Report (1923) observe as follows :—

"Credit alone cannot convert an unprofitable industry into a profitable one. Credit may enable an individual to make a certain operation pay which might not otherwise pay or might not otherwise be undertaken at all and the price which the producer has to pay may just turn the scale towards profit or loss in his own case. Viewed in this way credit may be an important factor in the cost of production in individual cases but it is mainly in other directions that a solution must be sought of the difficult problem of how agriculture generally can be made to pay and these lie beyond our province."

72. The Agricultural Tribunal of Investigation whose terms of reference were wider have very lucidly analysed the factors that go to make agriculture a paying industry and they have said that the study of foreign systems of agriculture show that a large number of forces contribute to the well-being of the agricultural industry in any country. The Tribunal singled out some of those factors which in their opinion were sufficiently important to deserve special mention. With some modifications these factors are equally applicable to Indian conditions and we may briefly enumerate them as follows :—

(i) *Removing the existing impediments to efficient production.*— We have already referred to the necessity of improving irrigation facilities, particularly in regard to minor works, in order to increase both the area under crop and the yield. Other impediments are fragmentation and sub-division of holdings and the prevailing system of land tenure, which stands in the way of the growth in India of a class of peasant proprietors. The example of Denmark shows what the creation of peasant proprietors in land can do. Many competent observers regard the system of ownership in agricultural land as one of the influential causes in Denmark's prosperity. There the farm tenancy decreased from 42·5 per cent. in 1800 to 10 per cent. in 1905 and 92 per cent. of the farmers in Denmark now own their farms. We have already referred in paragraph 64 to the detrimental effect which the present system

of land tenure in many parts of India has on the capability of the agriculturist to raise capital and credit to the extent required. The Central Provinces Committee are of opinion that any form of restriction on the right to transfer land must have injurious reactions on the efficiency of the cultivator. It has also been suggested that the most urgent requirement before the country today is the passing of legislation to bring consolidation of holdings into being at the earliest possible moment, and that without consolidation progressive farming is impossible.

In this connection one of our colleagues, Mr. Devadhar, has obtained some interesting statistics about the working of the Act which was passed in 1928 for the consolidation of holdings in the Chhatisgarh Division of the Central Provinces (*vide* para. 1615 *et seq* of the report of the Central Provinces Provincial Banking Enquiry Committee). According to his figures, during the short period of a little over three years, during which the Act has been in operation, 502 villages have come forward to secure the benefit of the Act; 174 villages out of 502 have so far been dealt with; in all 156,500 acres of land parcelled out into thousands of small holdings have been consolidated; the expenditure to Government has been comparatively small and in view of the attractiveness of the scheme to the agriculturist, Government have now decided to recover from him one-half of the cost of consolidation.

Mr. Devadhar also suggests that in the task of rural up-lift work which is appealing to the imagination of the educated people interested in the betterment of the agriculturist, the work of consolidation of uneconomic holdings or the prevention of further fragmentation of land must be vigorously undertaken.

(ii) *The fiscal organization of the country and in particular the assistance to agriculture by tariffs and subsidies.*—India has kept its door open for the import of agricultural produce from other countries and this policy, to quote a recent instance, has inflicted great hardship on the wheat producers of the country. The Royal Commission on Agriculture which considered the question of tariffs in connection with their enquiry recommended certain concessions in regard to the import duty on agricultural implements and articles used in the manufacture of such implements in India. Similarly, the grant of subsidies by the State for a limited period has been considered in certain other countries to be quite legitimate for fostering the production of certain crops and for various other purposes.

(iii) *Lowering the burdens of taxation.*

(iv) *The economic organization of the industry and in particular the development among farmers of methods of purchase and sale and co-operative insurance.*—Some of the Provincial Committees have emphasized the need for insurance against the unforeseen risks to which agriculture is exposed and have recommended that

the prospects of schemes of insurance of cattle and crops by Government or by co-operative organizations should be considered. We shall show in a later chapter how the existing system of purchase and sale of agricultural produce leaves a great deal to be desired. We would only mention here that we agree with the foreign banking experts that little will be gained by bringing millions of acres under cultivation, or increasing the agricultural production of the country, unless the necessary steps are taken to ensure that the commodities produced will secure a ready sale at a profitable rate.

(v) *Instituting schemes for the improvement of land, live-stock and crops, elimination and control of pests of plants and animals, provision of power and other assistance to industries subsidiary to agriculture and developing afforestation.*—It is not necessary to quote here all the recommendations of the Royal Commission in regard to the several items included in this factor. To quote only a few instances, the cultivation of improved varieties of seed does not confer sufficient advantage on the producer until arrangements are made for ensuring the purity of the article sold in the market. It has been urged that legislation should be undertaken to avoid adulteration of commodities in the market and that the Government should see that such legislation is enforced. Again, the import of hydro-genated oil into this country and its sale as ghee is reported to be responsible for the very slender chance of the revival of the dairy industry in India. Further it has been suggested that the difficulties of climatic conditions in India are not insurmountable and that if arrangements for cheap power be made, a very large area under cultivation can be protected against the vagaries of nature and the existing risks of agricultural industry minimised to a great extent. The improvement of the fertility of the soil, which has been reduced by continuous cropping without manure, is another urgent requisite of agricultural prosperity.

(vi) *Organizing the transport system of the country with due regard to the interests of agriculture.*—That the railway freight on the requirements of the agriculturists such as fuel and fertilisers, and on agricultural produce itself, is very high is a standing complaint against the present working of the transport system of the country. This policy is said to place a very great handicap on the agricultural produce of this country in competition with imported articles from other countries. For instance, it is understood that at the time of our report the freight per maund of wheat from Australia to Calcutta is six annas while the railway freight from Lyallpur to Calcutta is Rs. 1-3-3. Similarly, it has been pointed out that chemical manures in India are not produced as by-products of other industries and that on account of prohibitive prices they cannot be profitably used for ordinary crops in India. Other manures, like bone-meal, leaf-mould and potassium nitrate, cannot be used, as the transportation charges are very heavy. We

understand that bone-meal and potassium nitrate which are manures locally produced have to pay higher freight rates than imported artificial manures. Moreover, a large quantity of farm-yard manure has to be burnt as there is no other fuel available and the cheap fuel from the forests cannot be brought to the cultivator's door on account of prohibitive freight rates. Unless these handicaps are removed, the cultivator has no chance of improving his productive capacity. We may in this connection refer to our discussions with the foreign banking experts where it was admitted that in Germany the railway freight rates are adjusted for the special benefit of agriculture.

(vii) *Establishing a system of sound general education and special provision for agricultural education and research and for embodying the results of such research within the practice of the agriculturist.*—We understand that Denmark in less than half a century has raised herself to the height of prosperity by the education of her children and the improvement of her land. The spread of education among the rural population in India is of the foremost importance to agricultural development. We emphasize the necessity of embodying the results of agricultural research within the practice of the agriculturist. As it is, even the Royal Commission on Agriculture reported that although manurial experiments have been carried out on every agricultural station in India, satisfactory advice to the cultivator in regard to the use of manures had not reached the stage of practical politics.

(viii) *The developing of State or voluntary organization to provide the necessary central and local machinery for carrying out measures of agricultural policy and for influencing that policy.*

73. To sum up the position, we think that besides the provision of credit, the active pursuit of a progressive and constructive agricultural policy is necessary for the purpose of fostering profitable agriculture under modern conditions. In order to provide Government with the information it requires to pursue such a policy it is necessary to have a provincial organization on a permanent basis. The Provincial Committees during the course of their enquiry were confronted with the absence of any reliable or complete economic data and some of them had to enlist the assistance of a few university graduates in connection with their intensive surveys in individual villages. More than one Provincial Committee have recommended the establishment of a provincial organization on the lines of the Punjab Board of Economic Enquiry. We understand that this Board was formed in 1919 and has carried out a large number of village surveys and collected information in varied subjects such as the size and distribution of agricultural holdings, the rates of food consumed, mortgages of agricultural land, farm accounts and family budgets, and has provided a mass of useful data on the

economic position of the agriculturist. We support the recommendations of the Provincial Committees that a Provincial Board of Economic Enquiry should be started in each province to collect, correlate and analyse all the economic factors influencing the agriculturist and to present the results of the enquiry in a convenient form. As pointed out by the United Provinces Committee, the work of this Board must be of a practical rather than of a theoretical nature and the Board itself should act as a hand-maid to the Government Departments whose duty it is to promote the welfare and prosperity of the agricultural population. We do not think it is necessary for us to indicate how the Board should be constituted. This we would leave to the Provincial Governments to decide. We understand that in the Punjab it is a non-official body consisting of both officials and non-officials interested in economic studies and practically depending on a Government grant for funds.

74. Nicholson in his report on agricultural banks in India draws pointed attention to the necessity to couple credit with the promotion, almost enforcement, of thrift, providence and heedfulness in borrowing. The Irish co-operators also lay considerable emphasis on the fact that the producer cannot be dissociated from the man and that in order to bring about a change in his standard of living and in his outlook on life, the agriculturist should be tackled as a whole. Their well-known formula of rural economy is "Better Farming, Better Business and Better Living". The United Provinces Committee have also struck the same note in their Report where they suggest that rural reconstruction and better living societies should go hand in hand with Co-operative Credit Societies. The Royal Commission on Agriculture in dealing with the history of the Agricultural Bank of Egypt draw some lessons for the guidance of those who wish to reform the system of rural finance in India. They say: "The history of this institution provides a wholesome corrective to the views of those who hold that the problems of rural debt are to be solved at a stroke by the provision of cheap and abundant credit".

75. The difficulties in dealing with the problem of the Indian agriculturist seem to be further complicated by the circumstance that in India agriculture is, with most cultivators with uneconomic holdings, more a mode of living than a business. The Royal Commission on Agriculture summed up the position in these words: "To a very great extent the cultivator in India labours not for profit nor for a net return but for subsistence. The crowding of the people on the land, the lack of alternative means of securing a living, the difficulty of finding any avenue of escape and the early age at which a man is burdened with dependents combine to force the cultivator to grow food wherever he can and on whatever terms he can". Even elsewhere the farmer's chief aim is to provide the necessaries of life for his own household. He

is both the proprietor and the wage-earner and this position of mixed interest offers "a stubborn challenge to the economist's enquiries as well as to the programmes of administrators and legislators." Whatever may be the actual figure, it is generally conceded that the income of the agriculturist per head is the lowest in India as compared with most other countries. The Bombay Provincial Committee's observations may be taken as typical of the analysis of the position by other committees also. They say :—"No improvement in the existing credit system and banking facilities is likely to be effective unless it is accompanied by measures for raising the standard of living and economic condition of the mass of the population and for building up its productive strength. It is beyond our terms of reference to make specific suggestions in the matter, but we consider it essential to point out that progress of banking will depend on the spread of education and the promotion of agricultural improvement and the encouragement of industrial effort. Economic progress and development of banking being inter-dependent, banking cannot make any advance in a community sunk in poverty, ignorance and helplessness. Credit would merely supply grease to the economic machine and it is essential that all possible measures should be taken to ensure the efficient working of the entire mechanism".

76. We are, however, aware that the poor economic condition of the peasantry in India in general and the lack of proper credit facilities available to them involve them in a vicious circle. The position of many of the cultivators makes it difficult for them to furnish any security readily acceptable from the point of view of sound, safe and easily realisable investment. On the other hand the lack of cheap facilities for credit is responsible for the circumstances which compel these cultivators to resort to such money-lending agencies as impose on them quite ruinous terms regarding the conditions and rates of the loans and weaken their economic position still further through enhancement of their pre-existing debt. We do recognise that, although the economic position of these cultivators is due to various factors which do not strictly come under our purview, unless some effective measures are taken to furnish them with proper credit facilities, their economic position will grow worse day by day. We have, therefore, proposed in subsequent chapters better provision for rural credit through suitable organization of agencies like co-operative societies, land mortgage banks and money-lenders and have also suggested the creation of new facilities such as the establishment of licensed warehouses.

CHAPTER V.

RURAL FINANCE—(*continued*).

RURAL INDEBTEDNESS.

77. The question of rural indebtedness is one of the most important questions with which we have to deal. The prosperity of the country and the successful development of trade, industry and commerce entirely depend upon the improvement in the general economic condition and in the increase in the buying power of its population engaged in, and dependent on, agriculture. To achieve this it is necessary that the problem of indebtedness, its causes and its liquidation should be effectively solved. The Provincial Banking Enquiry Committees have attempted an estimate of rural indebtedness in their respective provinces. For the reasons mentioned in the provincial reports, estimates of rural indebtedness cannot be accurate. A total of about Rs. 900 crores made up of the figures for different provinces given in the provincial reports may, however, be taken as a very rough estimate of the total rural indebtedness of India. The figures for different provinces are :—

Province.	Total rural indebtedness.
	Rs.
Assam	22 crores.
Bengal	100 crores.
Bihar and Orissa	155 crores.
Bombay	81 crores.
Burma	50—60 crores.
Central Areas	18 crores.
Central Provinces	36 crores.
Coorg	35—55 lakhs.
Madras	150 crores.
Punjab	135 crores.
United Provinces	124 crores.

78. On the question whether the volume of agricultural indebtedness is increasing or decreasing, there is a general consensus of opinion that the volume has been increasing in the course of the last century. Sir Edward Maclagan writing in 1911 observed as follows :—"It has long been recognised that indebtedness is no new thing in India. The writings of Munro, Elphinstone and others make it clear that there was much debt even at the beginning of our rule. But it is also acknowledged that the indebtedness has

risen considerably during our rule and more especially during the last half century. The reports received from time to time and the evidence of annual sale and mortgage data show clearly there has been a very considerable increase of debt during the last half a century." The Royal Commission on Agriculture in India summed up the position in these words: "It is more than probable that the total rural indebtedness has increased in the provinces; whether the proportion it bears to the growing assets of the people has remained at the same level or whether it is a heavier burden or lighter burden on the more prosperous cultivator than of old are questions to which the evidence we have received does not provide an answer". The Punjab Committee have, for example, estimated that the total agricultural debt in the province has increased from Rs. 90 crores in 1921 to Rs. 135 crores in 1929. The burden of indebtedness has really become much more crushing than can be judged from a comparison of the growth of its volume in rupees, when we take into account the fact that the fall in the price of the crops since 1921 has been roughly 50 per cent. To understand the full effect of this burden, we may state, for instance, that the increase of rural debt in the Punjab from Rs. 90 crores in 1921 to Rs. 135 crores in 1929 really represents a debt of Rs. 270 crores in 1930.

Some of the Provincial Committees attempt to distribute the debt *per capita* and per acre of cultivated land, but the figures arrived at are not such as are calculated to convey an accurate idea of the economic position of the agriculturists. Regarding the distribution of debt on the acreage of culturable agricultural land, the Bombay Committee which attempts to arrive at a figure points out that it is of little practical value, and what applies to Bombay applies equally to all other provinces. After pointing out that the debt works out to 15 times the total land assessment, and at Rs. 26 and Rs. 20 per net cropped acre and cultivated acre respectively, the Committee proceeds to say that the figures vary in regard to the several parts of the Bombay Presidency like Southern Gujerat, Khandesh, Sind and Konkan, and that higher indebtedness per acre does not necessarily mean a correspondingly heavier burden. In their own words "An acre of good land may require larger capital and yield good income whereas an acre of inferior land may require less capital and yield less. From the point of view of assets also, an acre of land denotes different values at different places". In view of the difficulties pointed out above in regard to the incidence of debt *per capita* or per acre, we have not further examined the question.

79. As regards the number of agriculturists who are free from debt, different Committees have adopted different methods of ascertaining the percentage of those who are free from debt to the total

rural population. The figures so worked out for four provinces are given below :—

Province.	Percentage free from debt.
Assam	varying from 9 per cent to 38 per cent in different districts. (1)
Bihar and Orissa	varying from 19 per cent to 21 per cent. (2)
Central Provinces	varying from 14 per cent to 72 per cent in the case of landlords and from 13 per cent to 70 per cent in the case of cultivators. (3)
United Provinces	varying from 33 per cent to 61 per cent. (4)

This being the first effort by a Committee to arrive at even approximate figures of freedom from indebtedness in rural areas, and in view of the differing methods employed in each of the four provinces figures for which are available as above, we feel that it would be erroneous to attach any importance to the value of these figures as being of general application even in the whole of the respective provinces. But it is to be hoped that the provinces may be able, in their subsequent efforts, to make more definite enquiries following the spade work done by their Banking Enquiry Committees last year.

80. As early as 1875 the Commission appointed to enquire into the causes of the agrarian riots in the Deccan went into the causes of agricultural indebtedness. The findings of that Commission were later tested by Nicholson, by investigation into the causes of poverty in the province of Madras, who summarised them as follows :—

"First, poverty with unproductive soil, precarious climate, and irregularity of income,

Second, ignorance and improvidence,

Third, extravagance,

Fourth, ancestral debt,

Fifth, expansion of credit,

Sixth, increase of population without corresponding increase of return,

Seventh, facilities for borrowing owing to influence of money-lenders,

Eighth, the limitation laws, as leading to renewals on usurious terms including compound interest, and

Ninth, revenue system of a fixed demand."

(1) Assam, para. 33.
(2) Bihar and Orissa, paras. 83 and 91.
(3) Central Provinces, paras. 703 and 716.
(4) United Provinces, para. 183.

81. The Provincial Committees have made detailed investigations into the causes of rural indebtedness and their conclusions tally in the main with those mentioned by the Deccan Commission and by Nicholson. According to the Provincial Committees there are many reasons why the agriculturist in India is obliged to borrow. The most important and common reason is past indebtedness, which occasions fresh borrowing due mainly to the high rates of interest charged. These high rates of interest are partly the cause and partly the effect of indebtedness. The other main reasons are the small size of his holding and the way it is split up, making it almost impossible for him to live within his small income without getting into debt unless he is exceptionally frugal and industrious, or has some extraneous source of income; his constantly recurring losses of cattle from drought and disease, and the insecurity of crops which aggravates the cumulative effects of the other factors. To the agriculturist's extravagant expenditure upon marriage and other domestic ceremonies is attributed some part of the indebtedness, though many of the Provincial Committees think that the picture of extravagance is overdrawn. Both the Central Provinces and the Burma Committees have, however, pointed out that in times of prosperity owing to the absence of proper investment facilities, cultivators do spend larger sums upon social ceremonies than would be spent in lean years. Improvidence and purchase of land at heavy prices and taking up leases of land at high rentals during periods of boom have also been mentioned among the causes. In many cases the purchase of land at heavy competitive prices or obtaining lands on lease at high rents is said to be due to want of other occupations besides agriculture. The amount borrowed for improvements is generally small, but in lower Burma a large part of the indebtedness of the agriculturists is said to be due to the clearing and improvements carried out by the aid of borrowed capital. Borrowing for speculative trading is said to be one of the most frequent causes of indebtedness in Burma. Another cause of indebtedness in Burma is reported to be the necessity for one member of the family of a deceased person under the Budhist Inheritance Law, sometimes to purchase the holding of the deceased person if it is not large enough to be shared among all the members of the family. It is believed that a considerable amount is borrowed in Bihar and Orissa for trade purposes, *e.g.*, for collecting village produce and selling it at large centres. The Punjab Committee point out that while the reasons given above explain the existence of debt, the money-lender and his vicious system of business explain the continuance of such indebtedness and that the great expansion of credit that has taken place due to high prices and the inflated value of land account for the volume of indebtedness. The Committee have also referred to the increase in population without any corresponding

increase in production. While in all countries of the world during the last fifty years the percentage of population living on land has decreased, in India the percentage has considerably increased. According to the census figures, the percentage of the population following the occupation of pasture and agriculture has steadily risen from 61 per cent in 1891 to 66 per cent in 1901, 71 per cent in 1911 and 72 per cent in 1921. The Assam Committee have added another very potent cause which appears to have contributed largely to the increase of indebtedness, namely, the decline of the cottage industries and the loss of income to the ryot by a subsidiary occupation in the off-season.

82. To this state of indebtedness are attributed many of the evils to which the peasant is now subject. It is said that the indebtedness leads ultimately to the transfer of land from the agricultural class to the non-agricultural money-lender, leading to the creation of a landless proletariat with a reduced economic status. The result is said to be loss of agricultural efficiency, as the money-lender sublets at a rate which leaves the cultivator with a reduced incentive to raise a good crop. It is reported that this is confirmed by widespread crop-cutting experiments in Bihar and Orissa and Bombay. It is also added that as a result of this inefficiency the ryot is unable to get enough money to put in cultivation to yield first class crops and that he thus moves in a vicious circle. The United Provinces Committee, however, do not think that transfer of land from agriculturists to non-agriculturists is always necessarily for the worse, and they do not recommend the extension of the Bundelkhand Act to other parts of the province, but they recognize the need for a further and fuller inquiry into the matter. In some provinces, such as Madras and the Punjab, money-lending business is also done by the ryot money-lenders and any resulting change in the ownership of land has no detrimental effect on agricultural efficiency. The evil is said to be very prevalent in Bengal where it is believed the lenders are non-agriculturists in the majority of cases. No recent figures regarding the gains and losses of the agriculturist class by sale of land are available and it is not safe to draw any conclusion as to the present position in this matter. The Central Provinces Committee have, however, stated that the village surveys made by them showed that the number of persons who had lost their land through indebtedness was extremely small and that the money-lender at present at any rate, has no desire to take land in satisfaction of debts.

83. The Provincial Committees have also gone into the allegation that is generally made that the cultivator is obliged by reason of his indebtedness to sell his produce to his creditor at an unfavourable season and at a price detrimental to himself. When money-lenders are also shopkeepers and commission agents, they often make it a condition that the agriculturists' produce must be sold

through them. This very seriously affects the liberty of action in marketing the produce and is undesirable when the parties to the bargain are not matched. The evil effects of this system are felt more in Madras, Bengal and Assam than in other provinces. A word may be said in explanation of the attitude of the money-lender who, as stated by the Bengal Provincial Committee, is not always wholly to blame. Even when the money-lender is not a trader, and does not want to buy the produce, he knows that if the debtor does not pay after selling his produce, it will not be possible for the latter to pay till after the next harvest. He has, therefore, to put pressure on the debtor immediately after the harvest, and the effect of this pressure is so great that the borrower is compelled to dispose of his harvest as quickly as he can. As every grower is equally pressed for cash and has to sell at the same time, the price obtained by the cultivator is naturally depressed in consequence.

84. It is not necessary to repeat here some of the instances of economic servitude that arise from the money-lender's grip over the cultivator as these are mentioned in the report of the Agricultural Commission (paragraph 363), but such instances are now reported to be rare. It is reported that the charges that the money-lenders used to impose are gradually disappearing and that services rendered to creditors are generally paid for to a substantial extent.

85. To the chronic state of indebtedness on the part of the Indian cultivator may also be attributed the existing unsatisfactory system of agricultural finance, under which no clear distinction is drawn between loans required for short and long periods. When large sums of money are borrowed, say, for capital improvements or for repaying old debt, which could not in ordinary circumstances be repaid within a short period of time, the period of repayment fixed in the bond of agreement does not ordinarily exceed a short period; for instance, it is three years in the Central Provinces. The result is that the income of the cultivator has to be utilised towards the payment of the loan to a greater extent than is possible or desirable and he is left without sufficient margin even for his subsistence. This involves running the farms on less productive methods than would otherwise have been possible, and its reactions on national welfare are detrimental. The Central Provinces Committee feel very strongly that the creation of facilities for liquidation of debts, when they assume serious proportions, by dispensing long-term loans through an appropriate agency at low rates of interest would not only act as a safety-valve against the individual agriculturist becoming hopelessly indebted and unable to follow productive methods of cultivation, but would also of itself react upon the money market so as to reduce the general rates of interest charged on the short-term loans themselves.

Debt Conciliation and Liquidation.

86. Among the causes responsible for the low standard of living of the agriculturists and the continued impoverishment of this class, even in areas which are blessed with good seasons and normal crops, indebtedness must be given a high place. Rural credit, broadly speaking, falls into two categories, the current debt incurred annually with the intention of repayment after the harvest, and the standing or prior debt. As a matter of fact owing to the high, and not infrequently usurious, rate of interest which has generally to be paid on the current debt, and various other causes, the whole of it cannot often be repaid after the harvest, and the consequence is that the portion outstanding adds to the standing debt. The strengthening and expanding of the co-operative credit organizations, and controlling usury in the manner we have indicated in later chapters, are in our opinion the most potent remedies for arresting the future growth of unproductive debt. But the liquidation of the standing indebtedness presents an altogether different problem. It has to be remembered that in the majority of cases, this chronic debt is inherited. We find children born in debt and making every feasible effort to pay the debt of the fathers and forefathers. This social tradition and the custom of succeeding generations acknowledging and paying the debts of forefathers have been exalted into a legal doctrine of the "pious obligation", to pay an ancestor's debts, enforceable in courts of law. Even when no assets pass and debts are not legally inherited, the debt is generally treated by the son or the heir as a debt of honour by force of tradition.

87. The only facility which is now available to the agriculturist for redeeming his standing debt, apart from borrowing from one money-lender to repay another, is supplied by the co-operative credit organizations, mostly land mortgage banks. The limited extent to which these organizations assist in the redemption of prior debt is discussed later on in chapters IX and X. Nevertheless, valuable work in redeeming the standing debt of the agriculturist can be done by co-operative land mortgage banks in localities where they exist, and the further establishment of these banks should be encouraged where there is a reasonable prospect of their working successfully having regard to all the local conditions. In order, however, to satisfy the credit requirements of the large class of agriculturists who are outside the co-operative movement and to provide for substantial loans to big landlords, provincial land mortgage corporations on a joint-stock basis or on the model of the English Land Mortgage Corporation will be necessary. We shall deal with the subject of land mortgage banks fully in Chapter X.

88. Land mortgage banks can, however, be utilized for the purpose of redemption of standing debt only by those who can produce adequate security based on land and who have got an adequate amount of surplus income (*i.e.*, after paying for their cultivation expenses and other current needs) which can be used for the payment towards the redemption of the debt of annual instalments spread over a long period of years, and who will not have to seek further assistance from a money-lender for meeting their current needs and for the payment of such instalments. A large number of agriculturists, however, cannot produce adequate security based on land or where they can do so, do not possess the surplus income; and it is therefore impossible for them to have recourse to land mortgage banks. It follows that under existing conditions a large number of agriculturists have no facilities for getting rid of their standing debt; and this circumstance is resulting in a progressive and serious deterioration in their economic condition. We consider that it is incumbent on Government to devise measures to meet the situation. The Royal Commission on Agriculture uttered a serious note of warning when they said: "It must be clearly recognized that the worst policy towards debt is to ignore it and do nothing".

89. One method by which the problem can be tackled is by bringing about conciliation between debtors and creditors with the object of securing a composition of the standing debt. Several of the Provincial Committees deal with this method of solution of the problem:

(i) The Central Provinces Committee have given some facts and figures relating to the debt conciliation proceedings which were undertaken by the local Government in various parts of the province during the period of economic depression resulting from the famine years of 1897—1900. The Provincial Committee have collected certain figures with regard to the proceedings carried out in Damoh (two-thirds of the District), Balaghat, Bhandara, Hoshangabad, Betul and Jubbulpore areas. The total debt whose composition was attempted amounted to Rs. 2,06,29,512 at the inception of the proceedings, and the amount remitted was Rs. 1,21,70,904. The Committee point out that there may have been some debt conciliation in other districts of the province as well, but that the figures in respect of them are not now forthcoming. The details of the figures mentioned above are given at page 149 of the Committee's report. What is of greater interest is the method of conciliation work and the following extract elucidates it:—

> "The agency used consisted of local panchayats under the direction of a Government officer. Debtors and creditors were collected in every village and after the

objects of the proceedings were explained to them, they were called upon to sign an agreement to abide by the decision of the conciliators. The creditors were also required to sign a certificate that the statement of their claims was complete, and that any item omitted from it should be considered void. The paying capacity of the debtor was then ascertained and the liabilities distributed. In the case of tenants, instalments were spread over a period of 5 to 10 years and in the case of malguzars 15 years. The instalments in each case were fixed on the basis of rent or revenue paid. Six per cent interest was allowed in the case of overdue instalments of cash loans and 12½ per cent on grain loans. In any year in which Government revenue was remitted or suspended by reason of failure of crops, default in payment of instalments did not incur interest. No special agency was created for discharging the debts as compounded, and no cash payments were made to the creditors. The proceedings amounted largely to writing-off a good deal of irrecoverable debt."

One of the officers who conducted these operations reported that the creditors soon repented of the wave of generous enthusiasm and relapsed into their usual methods of collection of debts. The Committee further point out that the results were in any case only made possible by the exercise of considerable executive pressure and that similar methods would be unsuitable under present conditions.

(ii) The Punjab Committee do not refer to this subject in the body of their report, but describe some of the operations of composition of old debt carried on in their province in part III of note C appended to the Report (*vide* pages 173-174). It appears from that note that conciliation was attempted in Lyallpur, Lahore, Rohtak, Gujranwala, Ferozepore and Sialkot areas and that in some areas the results were satisfactory, while in others they were not. It was generally found in some of the areas that the money-lender agreed to composition only in bad cases. The following account of the method adopted by the Debt Composition Committee in Sialkot area where results were most satisfactory will serve to elucidate the process :—

"The Committee approach the money-lender and ask him to settle the accounts of certain members of the (co-operative) society. The money-lender will then tell them the amount including interest up-to-date. A round sum is offered to him and after some haggling,

agreement is reached and composition is effected as follows :—

(1) cattle are given to *sahukars* for amounts which are sometimes higher than market prices;

(2) grain, *bhusa*, etc., are handed over to the *sahukars*;

(3) partial payments are made in cash; and

(4) in some cases concessions are also obtained regarding the amount of interest, etc.

In some cases instalments are fixed after making a substantial repayment and at times interest ceases to run from the time of payment of a lump sum".

(iii) The Bihar and Orissa Committee describe an experiment at debt clearance in the Ranchi District where during 1906—12 the local Government made a determined attempt to redeem debt. The details of the scheme and its progress are given in a very interesting memorandum by Mr. Houlton, Settlement Officer, which is printed in the evidence volume of the Committee's report. The scheme was tried on a moderately large scale and the Government advanced about Rs. 1½ lakhs to the debtors to enable them to satisfy their creditors. In 1912, however, it was decided not to proceed further with the scheme. It was generally accepted to be a failure, principally owing to the fact that many of the cultivators could not maintain regularity of repayment and ultimately contracted fresh debts from the village money-lenders in order to pay off Government instalments.

90. The general experience recorded in all these provinces has been that any scheme of debt conciliation could not succeed until adequate organization for carrying out debt clearance has been built up, and unless some agency like the Government or the co-operative credit societies or land mortgage banks where they exist, is forthcoming to make cash advances to the debtors in order to enable them to pay the compounded debt, at least in part, to the creditor. The Central Provinces Committee are satisfied that many creditors would readily agree to accept in full satisfaction of their dues considerably less sums if paid down in cash. They also express the hope that District Development Boards and those assisting in the campaign of rural reconstruction would be able to help in evolving a scheme of debt redemption. The Punjab Committee report that their evidence leads them to believe that in many areas the moneylender is finding recovery increasingly difficult and is more disposed than ever before to compound his claims. It is thought, they say, that he would agree to substantial reductions if he were given an assurance that the amount finally settled would be repaid by a fixed date without further effort on his part; and it is suggested that the best way of giving him this assurance would be to allow him to transfer his debt, or such part of it as could not be paid at

once, to the co-operative society as a deposit which would be repayable *pari passu* with the instalments fixed for the debtor, subject to a maximum period of, say, ten years.

Our Recommendations.

91. We consider it to be a matter of supreme importance from the point of view of the economic prosperity of the country, as well as for the purpose of stemming the growth of discontent among a large section of the population, that a serious effort should be made to find a remedy for the chronic indebtedness of the agriculturist, so far as it relates to his unproductive debt. We recognize that the problem does not admit of an easy solution; and that even the provision of cheap and abundant credit will not solve it at a stroke and will not be of tangible benefit if the borrower does not understand the economic value of the credit and does not exercise prudence and judgment in its use. In our opinion the most effective remedy will be found in the pursuit by the local Governments of a vigorous policy of debt conciliation on a voluntary basis, and we commend for their consideration a scheme on the following lines :—

(1) Special officers should be appointed in each province whose function would be by propaganda to persuade the lender and the borrower to agree to a redemption of standing debt on the basis of a cash payment or equated payments spread over a number of years. It should be one of the functions of these officers to advise the agriculturist debtors of the existing facilities for lightening the burden of indebtedness, such as those provided for in the Usurious Loans Act and the Civil Procedure Code for repayment of loans by instalments. If it is considered desirable that Conciliation Boards would facilitate the operations of these officers, local Governments should arrange for their appointment.

(2) The existing co-operative credit societies should be utilized as the agency for the payment to the lender of the amounts payable under the terms of the settlement, and it will be a part of the arrangement that the borrower should become a member of the co-operative society, so that the society may provide finance for his current needs in future.

(3) Where the lender is willing to take in annual instalments such part of the debt as will have to be repaid to him under the terms of the settlement *less* any amount which the borrower can repay forthwith, the outstanding part of the settled debt will be

treated as a deposit by the lender with the co-operative society, the understanding being that the society will refund it to him through the annual instalments settled.

(4) Where the lender wants a cash payment in regard to the part of the debt which will have to be repaid to him under the terms of the settlement, Government should advance to the co-operative society the necessary funds which will be repaid by the society in annual instalments. Government should for this purpose have a regular programme of advances to co-operative societies in selected areas for purposes of debt redemption.

(5) In fixing the annual instalments to be paid by the borrower, due regard will have to be made for his paying capacity after making full allowance for his current expenses both for cultivation and maintenance.

(6) It is possible that the borrower may default in paying regularly his annual instalments. In that case, the society will be subjected to a loss, and it is desirable that Government should come to the assistance of the society in all cases where the loss is not due to any negligence or mismanagement on the part of the latter.

(7) If necessary, the whole arrangement should have the backing of a legislative enactment.

As in effect, the repayment of the settled amount of the debt will be made from long-term deposits either from the lender or the Government, there cannot be any objection in principle to an ordinary co-operative society undertaking the work.

92. There will, however, be cases in which the lender will not agree to a voluntary settlement of the debt. In such cases it will be necessary to take action to secure a compulsory settlement by means of legislative enactment.

93. The Royal Commission on Agriculture approached the question of redemption of ancestral debt from the standpoint of debtors who are prepared to give up all their assets in discharge of the inherited debt. The force of tradition and the legal fiction of moral and pious obligations to discharge ancestral debt, even where the assets are insufficient to cover the debt, have proved serious obstacles to the clearance of a large volume of inherited debt. The debtors are at present unable to avail themselves of the complex machinery of the present insolvency law which was primarily designed for mercantile cases. The Royal Commission, therefore,

recommended that the case for a simple Rural Insolvency Act should be considered in every province. They stated the justification for their recommendation in these words: "Just as creditors have the right to insist that all the debtor's assets should be impounded and applied towards the payment of the debts, so also the debtor who has given up all his assets should have the clear right to be allowed to earn his living if he can and to be free to make a new start in life." The Civil Justice Committee in dealing with the suitability of the existing Provincial Insolvency Law for rural debtors have more or less given expression to the view that the existing law does not suit agriculturist debtors. We are in agreement with the recommendations of the Royal Commission on Agriculture and the Civil Justice Committee that the case for a simple Rural Insolvency Act should be considered in every province. The adjudication of the claims under the Act should be made as speedy and inexpensive as possible and the debtor should be given facilities to obtain his discharge as quickly as possible. There should be a special provision in the Rural Insolvency Act for enforcing a scheme of composition before an order of adjudication is made. Provision should also be made for exemption from sale of properties indispensably necessary for the family of the insolvent as provided in section 60 of the Civil Procedure Code.

94. We are also of the opinion that, in view of the importance of the subject, the Governments concerned should explore the possibility and desirability of undertaking other legislation to secure the settlement of debts on a compulsory basis.

CHAPTER VI.

RURAL FINANCE (*Contd.*).

NORMAL CREDIT NEEDS OF AGRICULTURE.

95. The normal credit needs of the cultivator may be classified, taking the time factor for analysis, into two broad classes, *viz.* :—

(i) Short-term credit and intermediate credit to meet current outgoings and to facilitate production. The current outgoings and expenses of production include the buying of cattle and agricultural implements (or hiring them); purchase of manure and seeds; expenses of transplantation in the case of wet cultivation and weeding and hoeing of dry crops and of reaping, gathering and threshing; maintenance of the farmer, his family and live-stock and payment of revenue and rent; and outlay on various items of improvements effected in the ordinary course of husbandry such as levelling, deep ploughing, irrigation, clearance, drainage, fencing, and installation of pumping plant.

(ii) Long-term credit for obtaining fixed capital to be invested permanently or for long periods. The fixed capital is required for the purchase of land, acquisition of costly equipments, consolidation and improvement of holdings and repayment of past debt.

96. The cultivator also requires credit, which may be either short-term, intermediate or long-term,

(1) for marketing and movement of produce, and

(2) for small rural and cottage industries.

We think it will be convenient to treat these latter requirements separately, not because they are less important than those mentioned in paragraph 95 but because they lend themselves to separate treatment.

SHORT-TERM CREDIT.

97. The Madras Committee * have analysed the four requisites of the short-term credit required by cultivators as follows:—

(i) As the loans are required for the expenses of cultivation including rent and domestic expenditure, they should be available in comparatively small sums spread over a period of eight or nine months and should be repayable only after the crops are sold.

* Madras, paras. 129—132.

(ii) The loans must be available at short notice so as to enable the cultivator to take advantage of the rains and do the ploughing and transplantation as soon as they are possible.

(iii) The finance must be adequate. As pointed out by the Madras Committee, it is useless to lend money to plant a crop and to refuse a loan for further expenses connected with cultivation as the first loan is only jeopardised by such refusal.

(iv) The loans must carry a reasonable rate of interest, as otherwise agriculture may not be profitable even when other circumstances are favourable.

98. As already stated, short-term loans are purely seasonal in character and normally they should be repaid in full some time after the harvest. If there is a partial or total failure of the crops, an extension of the period is, however, required.

Intermediate Credit.

99. The cultivator also requires intermediate credit for the purchase of cattle and farming implements. These loans are required normally for a period of from one to three years.

Long-term Credit.

100. The first essential feature of long-term rural credit is that the sum advanced to the cultivator should be sufficient effectively to start him on his business. In India he requires long-term funds mainly to redeem his prior debts and to improve his lands and methods of cultivation so as to obtain increased returns from agriculture. In the second place, the long-term loan thus advanced should be repayable from the margin of profit of the borrower's holding without putting him to the necessity of starving his current financial needs (domestic and occupational), or of borrowing from another source, or of selling his holding to discharge the loan. In other words, the purpose of the loan and the repaying capacity of the borrower determine the period of the loan. In certain other countries the loans are spread over a long term of years and are recovered in easy instalments which usually amount to a small percentage of the principal amount of the loan. For instance, the maximum period allowed for repaying such loans is 30 years in Finland, 33 years in Chile, 36½ years in New Zealand, 42 years in Australia, 50 years in Italy and Japan, 54½ years in Austria, 57 years in Switzerland, 60 years in Denmark, 63 years in Hungary, 68½ years in Ireland and 75 years in France (1).

(1) "Rural Credits" by Herrick, page 211.

Estimate of requirements.

101. For the purpose of our report it is not altogether necessary to frame any accurate estimates of the requirements of cultivators for credit of various classes.

(i) Short-term and intermediate Credit.

102. Some of the Provincial Committees have devoted attention to the calculation of the short-term and intermediate credit required by cultivators in India. In making such calculations they were handicapped by the shortness of time at their disposal. They were in addition confronted with various difficulties, such as the illiteracy of the agriculturists who very rarely kept accounts, the difficulty of distinguishing between borrowed money and owned capital, the allowance to be made for household expenses, etc. The estimates which they have given, and which are stated to be very rough, relate mostly to short-term loans though they seem to include, in the case of some of the provinces at any rate, requirements for the purchase of cattle and the replacement of implements, which should be met from intermediate credit. The fact is that in India it has not been usual to make a hard and fast distinction between short-term and intermediate credit. A rough idea in regard to requirements for short-term and intermediate credit for cultivators for the whole of India may be obtained by comparing the figures of rural indebtedness and the rough estimates of short-term credit given by some of the Provincial Committees. For example, the Madras, Bombay and Burma Committees have estimated the amount of short-term loans as follows :—

	Estimated amount of short-term loans (Rs. crores.)	Estimated total rural indebtedness of province (Rs. crores.)
Madras	70	150
Bombay	32·5	81
Burma	20	50-60

From the above figures, we may perhaps take a figure of 300 to 400 crores of rupees as a lower limit for the whole of British India of the cultivators' requirements for short-term and intermediate working capital. We, however, propose not to put forward even a rough estimate of this kind, as we are keenly aware of the obvious short-comings of such estimates.

(ii) Long-term credit.

103. It is not easy to make even a rough estimate of the long-term credit requirements of the cultivators. According to the estimates given by the various Provincial Committees, rural indebtedness in India at the present day amounts to at least Rs. 900 crores. If at least Rs. 400 crores of this sum represents short-term and intermediate credit, the requirement for long-term credit to pay off old debts

amounts to at least Rs. 500 crores. In addition, we have the items of improvement of land and methods of cultivation which require very large sums having regard to the fact that the cultivated acreage of agricultural land in India is more than 200 million acres. Next come the long-term requirements for purchase of land and building houses, setting up of irrigation plants and the like. No estimate is possible of the requirements of these various classes even in an approximate measure. We can only say that there is an almost unlimited scope for the grant of long-term loans to the cultivators in India.

Credit Agencies.

104. The sources from which rural finance is now obtained are:—

(1) Money-lenders (including sellers on credit), both professional and non-professional.

(2) Indigenous bankers.

(3) Co-operative organizations.

(4) Government.

(5) Commercial banks including the Imperial Bank of India, the exchange banks and other joint-stock banks.

(6) Loan offices in Bengal.

(7) *Nidhis* and Chit funds in Madras.

We shall deal with each of these agencies separately in the succeeding chapters.

CHAPTER VII.

RURAL FINANCE—(*continued*).

MONEY-LENDERS.

105. Money-lenders may broadly be classified into—

(1) Professional money-lenders, either rural or urban, including itinerant money-lenders; and

(2) non-professional money-lenders of various kinds, such as,

(*a*) landowners and agriculturists; these have come into prominence in some provinces, especially Madras and the Punjab;

(*b*) merchants and traders;

(*c*) other casual money-lenders who are persons pursuing various occupations but lending out their surplus money, such as pleaders, pensioners, priests and widows. In this class may be included persons who do petty money-lending of a friendly character, usually without interest, among members of the same caste or tribe.

106. The Provincial Committees have attempted to obtain all available statistics in regard to money-lenders and indigenous bankers, but their reports show that reliable statistics are not available. For instance, as regards the number of money-lenders, the following statement shows the position :—

Province.	Number.
Madras	No information.
Bengal	45,000 (estimated at 90 per cent of the total of 50,000 roughly shown under "Bank Managers, money-lenders, etc." in the Census of 1921).
Bombay	20,000 (estimated, including indigenous bankers).
United Provinces	No information.
The Punjab	55,000 (estimated number of those who depend solely or in part on moneylending, including 19,000 agriculturist money-lenders).
Central Provinces	43,000 (roughly according to last Census, but not including the malguzars, big cultivators, and numerous Government servants and others who do money-lending).
Burma, Assam	No information.
Bihar and Orissa	100,000 (estimated number of persons conducting moneylending business in the rural areas. Besides, there are about 700 *shroffs* and urban money-lenders paying income-tax and a large number, not estimated, who do not pay income-tax).
Delhi	100 (indigenous bankers and money-lenders paying income-tax in 1928-29).
Ajmer-Merwara	17 do.
North-West Frontier Province	657 do.

Similarly no reliable figures are available regarding the capital invested by money-lenders.

107. It will be seen from the preceding paragraph that some of the Provincial Committees have found it difficult to give separately the number of money-lenders as distinguished from indigenous bankers. We suggested to the Committees the advisability of dealing with the problem of the money-lender separately from that of the indigenous banker. For this purpose we defined that by "indigenous bankers" is meant all bankers other than the Imperial Bank of India, the exchange banks, the joint stock banks and the Co-operative societies, and that the expression includes any individual or private firm receiving deposits and dealing in *hundis* or lending money. We are aware that while there are money-lenders who receive deposits, there are certain classes of banking communities who, though they do not, as a class, receive deposits, have been regarded by the public for all practical purposes as bankers. Both the banker and the money-lender generally carry on other forms of business such as commission agency and trading. For the purposes of our enquiry, we propose to include under the class of money-lenders those whose primary business is not banking but money-lending. We may quote in this connection a passage from the report of the Punjab Provincial Banking Enquiry Committee which brings out the distinction between the banker and the money-lender, especially the urban money-lender :—

> "The indigenous banker, as defined in the last chapter, may also combine banking and business, but in his case banking is primary. This is largely a difference of degree, and the other differences between the two (the indigenous banker and the urban money-lender) are of much the same nature. The indigenous banker finances trade and industry rather than consumption; the urban money-lender consumption rather than trade. Both banker and money-lender advance partly with, and partly without, security but the banker more often with than without, and the money-lender probably more often without than with. The banker is generally particular about the objects for which money is required: the money-lender is less careful. A further difference, and one, no doubt, arising from the last two, is that most of the banker's clients repay punctually, and most of the money-lender's have to be pressed. The banker, therefore, can afford to lend at 6 to 9 per cent and rarely goes beyond 12 per cent, but the money-lender commonly charges 9 to 12 per cent and goes up to 18 per cent The difference is a reflection of the greater trouble and risk involved in the urban money-lender's system."

THEIR METHODS OF BUSINESS.

108. *Professional money-lenders.—(a) Village money-lenders.*—The methods of business and system of accounts of these people are simple, but, as observed by one of the Provincial Committees, infinitely diverse, varying with the idiosyncracies of the money-lender, the circumstances of the debtor, the nature of the security and the locality. Generally speaking, loans are given on mutual trust without a document or even a witness. Loans are made on promissory notes when the amounts are large or when it is a case of renewal of an old loan. Loans are also granted on mortgages of land, houses, and ornaments and on rare occasions of cattle. Conditional sale-deeds are often taken and the oral arrangement is that the land would be re-transferred on the repayment of the debt. Possessory mortgages are common in some places and rare in others. For current agricultural needs, the money-lender usually accepts personal security on the understanding, expressed or implied, that the produce is to be sold to or through him. In many cases the security is mortgage of crops, but where the amount is large or the loan is for a long period, the security is the mortgage of land. The money-lender is not interested in the purpose for which the loan is taken or the manner in which the amount is spent. Interest is added at interests rates. This form of compound interest produces prodigious results in a short time. Even where the courts still apply the rule of *damdupat* in some cases, instalments of interest previously paid are not taken into account. The village money-lender does shop-keeping and trading, in addition to money-lending, and he is also engaged in agriculture. His advances to the cultivator are both in cash and in kind. Smaller money-lenders have nothing more than a scrap note-book in which they jot down a few details, or a loose bundle of bonds and decrees on the back of which entries are made of the amounts paid by the borrowers; but the more substantial money-lenders maintain both a day-book and a ledger. The relations between the village money-lender and the agriculturist borrower are said to be not so good as in the olden days when the constitution of the village society ensured fellow-feeling and inter-dependence. Further, the change in the system of law and administration of justice is said to have encouraged litigation. The debtor tries to take advantage of the existing provisions of the law to evade repayment and the money-lender resorts to various devices, such as taking bonds for larger amounts than are actually lent and conditional sale-deeds. One of the Committees report that it is not unheard of for a ryot to hypothecate the crop to one person and sell it quietly to another. These handicaps are said to react on the borrower, as the money-lender regulates his dealings so as to indemnify himself against such risks and losses.

(*b*) *Urban money-lenders.*—The methods of business of the urban money-lender are almost the same as those of the village money-lender. The urban money-lender also advances on *hundis*. His operations are on a larger scale than those of the village money-lender. He also combines the business of money-lending with other functions such as trading.

(*c*) *Itinerant money-lenders.*—These serve as credit agencies only for those persons who cannot obtain credit elsewhere. They comprise the Pathan money-lenders in the various provinces, the Rohillas in the Central Provinces and the *qistwala* and the cattle dealers in the United Provinces. The Pathan money-lender is found in small or large numbers in almost all parts of India. His business is confined more to particular classes of people than to particular tracts. Large classes of indigent people and poor wage-earners, such as factory workers, menial servants, peons and low-paid clerks, form his usual clientele. Sometimes, men in better positions, such as railway servants receiving good salaries, also invoke his assistance. The usual limits of advance are from Rs. 5 to Rs. 50. Promissory notes and signatures or thumb impressions in *khata* books are the most common forms of acknowledgment obtained from debtors. In cases of default, the money-lender uses force and seldom resorts to law courts. Actual cases of violence may not be many, but the methods employed are such as to keep the borrower in perpetual fear of being mitimized. The people who usually deal with these money-lenders are so ignorant and so terror-stricken that they scarcely dare file a complaint against them. The Bengal Committee report that advances by itinerant money-lenders used to be very informal, but that in recent years books of printed promissory notes in English are used in which the signatures or thumb impressions of borrowers are taken. Loans are also given under the instalment or *kist* system, the first instalment being in some cases deducted at the time the loan is advanced. In some cases the borrower is made to sign a promissory note stipulating that the loan shall be repaid in any of the several districts mentioned therein, so that if the borrower defaults, the money-lender can sue and obtain an uncontested decree in a distant place and then execute it at the place where the debtor resides. Almost all itinerant money-lenders sell goods, specially cloth, on credit, usually recovering the value in the next cold weather.

109. *Non-professional money-lenders.*—(*a*) *Land-owners and agriculturists.*—The Bombay Committee report that the agriculturist money-lender is often more exacting than the professional money-lender. He usually lends seed secured against future crops, or cash against the security of land, and eagerly seizes the opportunity to pounce upon it. The Punjab Committee report that there is no great difference between the methods of the agriculturist

money-lender and those of the professional money-lender, though his rates are probably lower. He is said to be avaricious and exacting, and being to some extent in a stronger position than the professional money-lender, he recovers a large proportion of his dues. His main and sometimes his sole object is to get possession of the land of his debtors. The United Provinces Committee also report that the methods of the agriculturist money-lenders may not differ materially from those of the professional money-lenders in such matters as security, the renewal of bonds, the rates and calculation of interest, but they necessarily regard their operations in a somewhat different light. Money-lending to them is not always a mere investment; it often has an ulterior motive. It is also common for landlords to finance their tenants. The United Provinces Committee point out that landlords are most dangerous creditors, as they acquire a double hold over the tenant borrower. If a tenant pays his rent, but not the interest on his debt, a landlord can sue him in a civil court. If the tenant pays the interest on his debt, but not his rent, the landlord can sue him in a revenue court. Worse, still, the landlord can, if he chooses, credit all payments to the debt and so keep the tenant in arrears with his rent, which puts the latter's crops in his power by distraint, and gives him the right to eject him if he pleases. They add that occupancy tenants have occasionally been compelled to surrender their rights to their landlords in liquidation of debts. As against this general picture, it is stated that in parts of the North West Frontier Province the landlord advances money to his tenants for seed and plough without interest; sometimes such advances are made to attract and retain tenants. The Central Areas Committee however report that generally speaking the rates of the agriculturist money-lender are never lower than those of the non-agriculturist creditor.

(*b*) *Merchants and traders.*—These sometimes lend money to the agriculturist on the understanding that his crops should be sold through them. Gin-owners also sometimes finance the agriculturist on condition that he sells his crop to the lender's factory or gets it ginned there. The Bombay Committee point out that the terms offered by this class are generally easier, as the process of marketing affords them an opportunity to secure a sufficient profit.

(*c*) *Miscellaneous money-lenders.*—This heterogeneous class consisting of pleaders, pensioners, widows, etc., lend money only to those whom they know fairly well and on good security which consists generally of land or ornaments.

Period of Loans.

110. The Provincial Committees report that the money-lender is usually accommodating. His loan has ordinarily to be repaid at

harvest time or at any rate from the sale proceeds of the crop. If there is a partial or total failure of the crops, he readily grants an extension or takes a new bond for a higher amount. In Ajmer-Merwara, it is said, the local money-lenders advance loans for cultivation purposes and for special needs, such as maintenance during scarcity or famine for a period of from 6 months to 1 year. They give loans for capital expenditure for periods up to 3 years. The Bengal Committee report that in the case of mortgage by conditional sale or English mortgage, the period of loan is usually six years or more. In the North West Frontier Province the private money-lender gives loans usually for an indefinite period. The Central Provinces Committee report that the period of short-time loans extends to the time of the marketing of the crops and that the period of intermediate loans does not extend beyond three years in ordinary circumstances. The Assam Committee report that small loans are given for a few months but are allowed to run on for years. Most of the loans of itinerant money-lenders are for short periods. It is said that the degree of rigidity of recovery depends much upon the personal characteristics of the lender himself, and the Central Areas Committee point out that recovery is not insisted on so long as it is felt that the money is safe.

QUESTIONABLE PRACTICES CONNECTED WITH MONEY-LENDERS.

111. The Provincial Committees have dealt with various questionable practices connected with money-lending. The most common forms are :—

(*a*) demand for advance interest,

(*b*) demand for a present for doing business, known as *girah kholai* (purse-opening),

(*c*) taking of thumb impression on a blank paper with a view to inserting any arbitrary amount at a later date if the debtor becomes irregular in payment of interest,

(*d*) general manipulation of the account to the disadvantage of the debtor,

(*e*) insertion in written documents of sums considerably in excess of the actual money lent, and

(*f*) taking of conditional sale deeds in order to provide against possible evasion of payment by the debtor.

The Central Areas Committee refer to a charge called *multana* of 5 annas on each loan of Rs. 10 made by itinerant money-lenders. The Central Provinces Committee refer to another form of exaction from the debtor in the shape of charges for writing the document. They also refer to the practice of the borrower being forced to pay a certain percentage to the money-lender's *munim* or agent before he can obtain a loan, specially if the borrower's credit is not very good.

The Royal Commission on Agriculture refer to certain forms of services exacted by the money-lenders in Bihar and Orissa and certain other parts of India leading to the economic servitude of the borrower. The Central Provinces Committee have referred to the system which prevails in the more backward tracts of the province, but which is becoming less common, under which the debtor or a member of his family renders service to the creditor with or without payment for a certain fixed period. There is also evidence of dishonesty or fraud in the advance and collection of loans in kind, in cattle credit, and in the working of the instalment system. Some of the Provincial Committees find that the evils are slightly exaggerated. For instance, the Bihar and Orissa Committee remark that though they fully believe that there are many dishonest money-lenders, they are not convinced that dishonesty is the rule. They are inclined to the view that such misdeeds, when they come to light in court or in an examination of debts preparatory to the formation of a credit society, are apt to leave an exaggerated impression on the mind. The prevalence of these questionable practices in varying degrees is, however, generally conceded by the various Provincial Committees. At the same time, we should like to observe that similar practices are known to be prevalent in all countries amongst certain sections of the money-lending class and that these practices are not peculiar to India.

Rates of Interest.

112. *Assam.*—Rates vary from 12 to 75 per cent. In the case of paddy loans in Assam, if the repayment is not made at the end of the year, the principal and interest are compounded and a bond is taken with further interest at 24 or 37½ per cent. The average rate of interest charged by the village money-lender or by produce merchants is 37½ per cent. throughout the province. Where loans are large in amount and security is good, rates of 24 and even 18 per cent. are common. The rate of 12 per cent would apply only to a solvent landowner or trader.

Bombay.—The interest charged varies from 12 to 25 per cent or even more according to varying conditions. The rate is highest in Sind rising to 50 per cent.; lower in Konkan, the Deccan, Khandesh and the Karnatak, being 12 to 24 per cent; and the lowest in Gujerat, 9 to 15 per cent. Loans secured by land or other property carry interest at about 12 per cent, and loans advanced against the security of ornaments, 9 to 12 per cent. The rate of interest charged by the urban money-lender is not so high as that of the rural money-lender; while that charged by the agriculturist money-lender is generally about the same as that of the village money-lender, though a substantial land-owner may lend money to his tenant or servant on easier terms. *Choksis* and

sarafs who specialise in lending against ornaments charge interest at rates varying from 9 to 12 per cent. The rate of interest charged by merchants varies from 9 to 12 per cent. The Pathan money-lender's rates vary from 75 to 360 per cent.

Bengal.—The rate of interest varies with the security and the amount of the loan, as well as with the total amount of capital available in the vicinity. It is lower in western and central Bengal than in eastern and northern Bengal. The minimum rate varies in different districts from 10 to 37½ per cent and the maximum from 37½ to 300 per cent. Loans on mortgages of Calcutta house property or *zemindaris* are usually given at 8 to 12 per cent. Loans on promissory notes taken from the better class of money-lenders by respectable clients carry interest from 9 to 18 per cent. Large loans on mortgage of *zemindaris* are given at as low a rate as even 5½ per cent. Loans to agriculturists given on the security of their holding generally bear interest from 18¾ to 37½ per cent. Loans given without any security often bear much higher rates, going up to 300 per cent. When interest is levied in kind, the rates are much higher than in the case of cash repayments.

Bihar and Orissa.—The prevailing rate for grain loans is 25 per cent. in the Oriya-speaking districts and 50 per cent. in the rest of the province. For seed, double the prevailing rate is charged. These rates have to be paid over a period which does not usually exceed 8 months, and a failure means, as a rule, compound interest. It must, however, be remembered that the borrower gets the benefit, if any, of the drop in price between July when he borrows, and January when he repays. The rate for cash loans in Orissa averages 25 per cent. or a little higher, that in the Chota Nagpur plateau is mostly 37½ per cent and this rate extends into the southern parts of Monghyr and Bhagalpur. Elsewhere in Bihar the far more moderate rate of 18¾ per cent prevails.

Burma.—Loans by village money-lenders may be one quarter to one half higher than Chettiyar rates, which are 1½ to 2 per cent per mensem, varying generally according as mortgage security is given or a promissory note. There are wide variations from the standards, the rate going up to 4 or 5 per cent. per mensem for small unsecured loans.

Central Provinces and Berar.—The ordinary rate of interest varies between 12 and 24 per cent. On good security, such as mortgage of transferable land, it varies usually between 9 and 15 per cent. in the Central Provinces, while it is slightly higher in Berar, between 12 and 18 per cent. The rate of interest charged for small loans given to occupancy tenants is ordinarily 24 per cent, while in the case of the ryots of Government ryotwari villages, who have no right of transfer in their land and who are also liable to ejectment on breach of certain conditions, the rate charged is, as often as not, 37½ per cent. There is nearly always a stipulation

that in case of default in repayment on the fixed date, a higher or penal rate of interest will be charged. The rate for grain loans varies considerably in different parts of the province and according to the kind of grain borrowed. It may be 25 per cent., 50 per cent, or even 100 per cent. The most common rate for wheat advances is 25 per cent., although in years of crop failure and in the case of cultivators with very poor credit the rate may sometimes be higher. The rate of interest on paddy loans is also usually 25 per cent, though 50 per cent is less uncommon for rice than for wheat.

Central Areas.—In Ajmer-Merwara the ordinary rate of interest on mortgage of agricultural land varies from 6 to 13½ per cent per annum, and on unsecured loans from 12 to 18 per cent. The rates in Delhi range from 12 to 24 per cent. and in the North West Frontier Province from 6 to 18 per cent. in the case of mortgage loans and from 12 to 36¼ per cent. in other cases. Evidence is, however, very strong that the rates actually realised are substantially lower. As regards grain loans, the rates differ in different parts according to local custom. In Ajmer-Merwara the *sawai* system or repayment with addition of 25 per cent. of the borrowed amount prevails, but it is declining. The rates of the agriculturist money-lender are never lower than those of the non-agriculturist creditor. The rates of the trans-border money-lenders vary from 75 to 100 per cent.

Madras.—The common rate of interest varies from 12 to 24 per cent, occasionally rising to 36 or even 48 per cent. There is a downward trend in the rate of interest on mortgages, 12 per cent being commonly charged on good first mortgages. The rate on pro-notes and on pledge of goods including gold and jewels is higher. The reason for this higher rate is stated to be the borrower's urgent need. Landlords and other ryots carry on lending business on similar terms. They commonly give loans in kind and also loans in cash with a stipulation of repayment in kind and such loans involve repayment with 25 to 50 per cent. interest for the season.

The Punjab.—In both town and village, the rates for first class security range from 6 to 9 per cent, and for good second class security from 9 to 12 per cent; in both, when material security is not forthcoming, the rate may rise to any figure. Against ornaments and stock in trade, which after Government securities provide the best security, 9 per cent is charged; against house property, the rates are 9 to 12 per cent. and on pro-notes 10½ per cent. to 12 per cent. The maximum rate is 13½ per cent but is rarely charged, since few unsecured loans are made. The lowest rate charged by the Pathan is 75 per cent per annum and his actual rate may be twice as much.

United Provinces.—The merchants and traders usually charge 7½ to 9 per cent. interest and urban money-lenders between 7½ and 12 per cent on *hundis* and pro-notes, 9 per cent being the most

common rate. Interest on mortgages of house property varies between 7½ and 12½ per cent; on mortgages of *zemindari* the interest ranges between 9 and 12 per cent. Village money-lenders charge between 18 and 37½ per cent, but the general rate is 24 per cent. For mortgages of smaller amounts 9 to 18 per cent. is charged, 12 per cent. being the usual rate. The rate of interest generally charged by the *qistwala* works out at 44 per cent, whilst the rate charged by the Kabuli varies from 75 to 300 per cent. The normal rates of interest charged on grain loans are 25 to 50 per cent. The cattle dealers sell their animals on credit and the price is payable in four half-yearly instalments usually at the rate of Rs. 150 for Rs. 100. They also make petty loans at extortionate rates of interest.

113. The money-lenders generally work with their own capital. The village money-lenders supplement their capital by borrowing from the urban money-lenders and rarely take deposits from the public. Some of the urban money-lenders, on the other hand, do take deposits and sometimes borrow from indigenous bankers. Merchants and traders have dealings with joint-stock banks as well. It is said that some of the itinerant money-lenders in Bihar and Orissa add to their resources by borrowing from co-operative societies of which they are members in their own districts. Owing to the absence of a rational system of rural finance differentiating between short and intermediate credit needs on the one hand and long-term needs on the other, the capital of the village money-lender who is the mainstay of the agriculturist is becoming frozen from year to year.

114. It will be seen from the figures in paragraph 112 that the rates of interest generally prevalent throughout India are high. Various circumstances contribute to this state of affairs :—

(i) The assets of the farmer consist of his land, his cattle, his crop, his house property and his movable possessions including ornaments. Land is the only security for procuring long-term credit to the borrower and of the other assets available as cover for short-term borrowings, the most valuable is the ornaments of the female members of the family. But ornaments in the case of a large proportion of the agricultural class are not worth speaking of and there is in addition a sentimental objection, which seems to be gradually decreasing, to pledge them as security for loans. The other assets are generally flimsy in the extreme. The money-lenders who lend money in these circumstances are taking a risk which other organized credit agencies do not take and they have,

therefore, to protect themsevles against loss by charging high rates of interest. The fact that the high rates of interest are of the nature of an insurance against risk is forcibly brought out in some of the Provincial Committees' reports where the money-lenders' stipulated rates of interest have been compared with what they actually receive by way of net profit. We quote below some figures of returns on capital invested which are given by the Central Areas Committee, picked up at random from the files of decided cases in law courts:

Serial No.	Stipulated rate of interest.	Realized rate of interest on assumption that decreed amount was realized.
	Delhi.	
	Per cent.	Per cent.
1	18	9·7
2	24	7·8
3	6	3½
4	24	9·3
5	24	16·1
6	75	2
7	37½	8·4
8	37½	6·9
9	37½	26½
10	75	67 (exceptional case.)
11	37½	15·8
12	37½	17·4
	Ajmer-Merwara.	
1	37½	*Nil.*
2	37	18·7
3	15	12·1
4	15	11·2
5	15	7
6	21	13·8
7	25	*Nil.*
8	18¾	9·3
9	15	7·9
10	12	4
11	15	*Nil.*
12	18	5·3
13	75	9·3
14	100	13·7
15	150	12·1
16	24	12·3
	North-West Frontier Province.	
1	41 (roughly)	7
2	50	*Nil.*
3	28	7·8
4	37½	10·9
5	18	11·9
6	30	19·7
7	24	19·5
8	15	5·3
9	70 (roughly)	7·9
10	50	1.8
11	18	1¼
12	33	1½
13	37½	8·8
14	16 (roughly)	9½

(ii) In many parts of India the money-lender is the only financing agency available to the agriculturist. There are places where even this financing agency is non-existent and where the villager has to go to a neighbouring village in search of the money-lender. At places where the money-lender works side by side with other organized credit agencies, the latter do not touch all classes of population and do not even fully meet the requirements of the people they finance. On all these accounts, the money-lender holds a semi-monopolistic position and his rates of interest are naturally high.

(iii) The money-lender himself is suffering from shortness of capital. He rarely receives deposits and has generally no connection with the money market with the result that competition among borrowers drives up the rates.

(iv) The lack of education and the conservative habits of the people are also responsible for the high rates of interest charged by the money-lender. The people have neither the ability nor the desire to enquire into the possibilities of getting cheaper money from urban centres and the Bengal Committee go so far as to say that although an individual money-lender may be disliked in the locality for his excessive rates or the severity of his treatment, the public on the whole do not condemn the high rates of interest ordinarily charged by money-lenders.

(v) The money-lender's expenses of collection and management of loans given to innumerable small borrowers are much higher than similar expenses of, say, a joint-stock bank, and this fact accounts for the maximum limit of interest being fixed as high as 48 per cent in the English Moneylender's Act, 1927, and 42 per cent in the Uniform Small Loan Law in the United States of America.*

115. We agree with the Provincial Committees that the money-lender is an indispensable feature of Indian rural economy. He is easily accessible. His methods of business are simple and elastic. He maintains a close personal contact with the borrower, often having hereditary relations with the family of the borrower. His local knowledge and experience and his presence on the spot enable him to accommodate persons without tangible assets and yet protect himself against losses. More than one Provincial Committee have, however, referred to the gradual decline in the business

* Rusticus Loquitor by M. L. Darling, pages 329 and 330.

of the professional money-lender in recent times as evidenced among other things from the number of indigenous bankers and money-lenders declared insolvent. This is attributed to various causes, the most important of which are the following :

(i) the general economic depression which has affected him both in his capacity as an agriculturist and trader and as a lender to the agriculturists,

(ii) the legal protection given to the agricultural borrower by legislation such as the Land Alienation Acts, the Usurious Loans Act, the Civil Procedure Code, etc., to which we shall refer in a later chapter,

(iii) the growth of the co-operative societies,

(iv) the courts' delays, both in the matter of awarding decrees and in their execution, and

(v) the prevalent suspicion in some quarters against the whole money-lending class on account of the questionable practices of some of them.

Some existing Legislation.

116. With a view to protecting the honest borrowers and lenders, various measures have been recommended by the Provincial Committees. Before proceeding to examine these recommendations we should like to refer to some existing legislation dealing with money-lenders and usury.

(1) *The Punjab Regulation of Accounts Act, 1930.*—This Act was passed in 1930 and will come into force on the date to be notified by the Provincial Government not earlier than 6 months or later than one year after the date of final publication of certain rules under the Act. These rules have only recently been published. The Act imposes certain obligations on creditors, by which is meant persons who in the regular course of business advance loans, whether of money or in kind, at interest, excluding, however, loans made to traders, *i.e.*, wholesale or retail merchant, commission agent, broker, manufacturer or factory-owner. The duties imposed are the regular record and maintenance of the account of each debtor separately in a manner prescribed by the local Government; and furnishing each debtor every six months with a legible statement of account signed by himself or his agent, showing the amount of loan outstanding and all transactions relating to the loan entered into during the six months to which the statement relates. The accounts have to show interest separately from principal and the creditor cannot, in the absence of agreement, include the interest in whole or in part in the principal sum. In any suit or proceedings relating to a loan, the Court is empowered

to disallow the whole or a portion of the interest found due if the creditor has not regularly recorded and maintained his accounts. The Court is further empowered, in cases where the creditor has not furnished the six-monthly statement to the debtor, to exclude, in computing the amount of interest due, every period for which the creditor has omitted to furnish the account or has delayed it and has not been able to show sufficient cause to the satisfaction of the Court for the delay. The Act is said to be an experiment in controlling and reforming the money-lender by law and is not yet in operation. We commend this piece of legislation to the other Provincial Governments for consideration. We desire to bring to their notice certain difficulties which have to be surmounted in this connection and which have been referred to in paragraph 176 of the Report of the Punjab Committee. We wish further to add that such legislation may usefully provide for the money-lender invariably granting receipts for all repayments made by the borrower, maintaining counterfoils thereof. An alternative arrangement would be to prescribe that the money-lender should give to each of his borrowers a pass-book which should record all receipts and payments as well as the interest charged periodically.

(2) *The Usurious Loans Act of 1918.*—Before 1918, the legal position regarding usury was that Courts were obliged to decree interest at the rate fixed between the parties and the only remedy against unfair bargains was for the debtor to plead undue influence. This provision was not, however, of much help to the agriculturist. The Usurious Loans Act of 1918 attempted to improve the legal position of the borrower in various ways. It empowered the Court to reopen and examine all loan transactions, even when they came before it in insolvency proceedings, if in its opinion the interest was excessive or the transaction between the lender and the borrower substantially unfair. The Act covered cases of both money and grain loans and though it did not define the terms 'excessive' interest and 'unfair' transactions, it laid down certain criteria for the guidance of courts who have been told to take into account in deciding such cases the following considerations :—

(i) the risk taken by the creditor, including the presence or absence of security and the financial condition of the borrower,

(ii) the various other charges besides interest made by the creditor such as charges, in money or in kind, for expenses, inquiries, fines, bonuses, premia and renewals,

(iii) the compound interest, if any, charged, and

(iv) all the circumstances attending the loan including the need of the debtor.

The Royal Commission on Agriculture reported that the evidence tendered before them conclusively showed that the Act was practically a dead letter, but as they had heard no evidence from Civil Judges, they recommended that an enquiry be made in every province into the causes of the failure to utilize the Act. We requested the Provincial Committees to make this enquiry and the results of such enquiry will be found in the Provincial reports. These show that the Act is not a dead letter as suggested by the Royal Commission, though most of the Committees admit that there are various defects in the Act which require to be remedied.

We are of opinion that the Act is capable of being worked to the advantage of the debtors in many provinces and should be retained. In Bombay, the Act may not have been resorted to frequently because the Deccan Agriculturists' Relief Act gives greater relief to the agriculturist. With regard to other borrowers, the Act would, however, be useful. We are unable to agree with the suggestion to amend the Act so as to fix a definite statutory limit to the rate of interest. This will be neither practicable nor effective. If such a limit is considered necessary, we think that the provision should be made in a different way, *viz.*, that interest up to 12 per cent per annum shall not be considered excessive within the meaning of section 3 of the Act. The difficulties mentioned by the Bengal Committee in their report, namely, want of sufficient evidence to show the usual prevalent rate in the locality; the difficulty of establishing that a transaction is substantially unfair; the difficulty of securing sufficient evidence to prove that consent was obtained by undue influence or unfair means, are really matters relating to questions of fact and the courts should decide them as best as they could on the material placed before them. We also agree with the Royal Commission that if the Act were fully utilized, it would go far to relieve the country of some of the worst evils of uncontrolled usury and further, that a special report on the working of the Act should be included in the annual reports on the administration of civil justice.

(3) *The rule of damdupat.*—This is a rule in the Hindu Law of Contract according to which interest exceeding the amount of the principal cannot be recovered at any one time. This rule is said to be in force in certain parts of Bombay and in the town of Calcutta, but it is not recognised in the Bengal Presidency outside Calcutta or in the Madras Presidency. It is understood that there is a difference of opinion as to whether the rule is in force in regard to interest on mortgages governed by the Transfer of Property Act. The rule is also recognised by the courts in Berar. According to the Central Provinces Provincial Banking Enquiry Committee, this rule has not been of much service to the people as the courts do not go below the last agreement or contract. The Bengal Provincial Banking Enquiry Committee have recommended that a

general legislation limiting the total accrual of the interest to the amount of principal originally lent should be enacted. In Santal Parganas it is reported that in no case the accrued interest can exceed the principal and the restriction is said to be effective because the administration is still of a personal character. We do not think that legislation on the lines recommended by the Bengal Provincial Banking Enquiry Committee is practicable.

Suggestions Regarding Licensing and Control of Money-lenders.

117. We will now proceed to deal with the general recommendations of the Provincial Committees in regard to money-lenders. The Central Provinces and Bengal Committees are in favour of compulsory registration of money-lenders. The Madras, Bihar and Orissa, Burma, and Central Areas Committees, on the other hand have recommended only optional registration, while the Punjab, Bombay, and Assam Committees do not at all support the proposal. The United Provinces Committee have received various proposals for restricting the money-lenders' operations, but have approved of none of them and have nothing concrete to suggest.

118. The arguments for compulsory registration are as follows :—

(1) It is in the interests of the large mass of agricultural population that such defects as exist in the present system of money-lending should be removed and that the temptations of unscrupulous persons to practise dishonesty should be minimised. These interests should over-ride considerations of personal inconvenience or prestige. The proposal is less drastic than other legislative remedies such as the Deccan Agriculturists' Relief Act and the Punjab and Bundelkhand Land Alienation Acts.

(2) The Central Provinces Committee believe that very few among the responsible persons in the class of money-lenders are likely to offer any objections to the introduction of a system of compulsory licensing, but other Committees do not share this view (*vide* paragraph 119 below).

(3) The members of one of the liberal professions, *viz.*, the lawyers, are all registered and have to take out licences in the public interests before they can practise in their profession. The members of the medical profession are also registered. There can, therefore,

be no legitimate complaint on the part of professional money-lenders against registration.

119. The following are the arguments against compulsory registration of money-lenders :—

(1) Few money-lenders would be willing to submit to any restrictions unless they were given special facilities for recovering their debts from defaulters. This could not be done without prejudicing other interests of equal, if not greater, importance, nor could it be done at all unless the number of money-lenders' licenses were restricted to comparatively a few in each district, a course to which there are obvious objections.

(2) In India we have to deal with an illiterate class of borrowers who cannot afford to lose the goodwill of the creditors on whom they are dependent. It is little use passing legislation which on account of the strong position of the money-lender can be easily evaded. As shown by the experience of the Deccan Agriculturists' Relief Act, the more restraints are placed on the money-lenders, the worse becomes the position of the borrower.

(3) It would also be difficult to make provision for the inclusion of a class of people who, though not money-lenders themselves, lend their surplus money to others.

120. Various conditions of licence have been suggested in connection with compulsory or optional registration. They are :—

(1) Fixing the maximum rate of interest. One suggestion is that the money-lenders' rate should not be more than 3 per cent above the bank rate. Another suggestion is to fix the maximum rate according to the special circumstances of each province and, if necessary, for different parts of the same province and for the different classes of borrowers, such as agriculturists and non-agriculturists.

(2) The money-lender should keep his accounts in a standard form and allow them to be inspected by a Government auditor once or twice a year.

(3) Receipts should always be granted on counterfoils for all payments made.

(4) The account of each individual borrower should be separately maintained and a copy of it furnished

whenever demanded by the money-lender's clients, on payment of writing charges, subject to not more than one copy of the account for six months.

(5) The money-lender should be encouraged to advance loans as far as possible against receipts issued by warehouses and agricultural *hundis* of not more than six months' usance. The object of this is to use the money-lender, by affording special banking facilities for him, to create that large amount of self-liquidating agricultural paper which the country needs for the efficient working of its banking and currency system.

(6) Compound interest should not be prohibited, but the period of rests should be not less than one year.

(7) The practising of money-lending without a licence should be an offence punishable by law.

121. The following privileges have been recommended for the licensed money-lenders :—

(1) The procedure already in force for the recovery of public demands should be made available to registered money-lenders for the recovery of loans made against agricultural *hundis* and warehouse receipts. It is suggested that the quick procedure is absolutely necessary not only in the interests of debtors and creditors alike, but also for the smooth working of the entire banking and currency machinery, as the failure of the registered money-lenders to realise their just dues might make it impossible for the banks to discount their agricultural paper.

(2) Banks should be persuaded to advance money to registered money-lenders on the security of their agricultural paper. Should banks be slow to respond, Government should use its good offices to induce the joint-stock banks, and failing them the Imperial Bank of India to discount this paper. Failing all these alternatives, the utilization of the postal savings bank deposits for financing registered money-lenders is suggested. It is, however, hoped that such special measures will not be necessary.

(3) Registered money-lenders should be given the same remittance facilities as are allowed to banks by the Imperial Bank of India and to co-operative societies by the post office.

(4) The registered money-lender should be allowed to open current accounts with the post office withdrawable by cheque within the area of the sub-division in which he operates. Payments to this account by his customers may also be accepted at any post office within that sub-division.

OUR PROPOSALS.

122. The main objectives of the proposal to introduce a system of licensing money-lenders are two : to reduce the high rates of interest charged by them and to control, and to remove the dishonest practices among certain members of their class. As regards the question of interest, we have already referred to the monopolistic position of the money-lender in large areas and to the various other factors such as risk and the expenses of collection that contribute to the present high interest rates. In our opinion, a real and lasting solution can only be found by the spread of education, the extension of co-operative and joint-stock banking and by the training of the borrower in habits of thrift and saving. Meanwhile we feel that if the Usurious Loans Act can be more fully utilized and if the measures we recommend are carried out, we shall have done all that is desirable and practicable in the present circumstances in regard to this matter. As regards the second objective, namely, to stop the fraudulent practices of the money-lending class, we have already made a recommendation that the enactment of the provisions of the Punjab Regulation of Accounts Act might be considered by other Provincial Governments. We hope that if similar legislation were introduced and worked successfully in other provinces, many of the complaints against the money-lenders such as manipulation of accounts, insertion in written documents of sums in excess of the actual money lent, and taking of thumb impression on blank paper and insertion of arbitrary amounts later, would soon disappear. We further consider that the periodical receipt of statements of debt and interest due would in a sense begin the financial education of the agriculturist who is an imprudent borrower. He will learn, sooner or later, to scrutinize the account, to realize the advantages of prompt repayment and the necessity of reducing his expenditure to be able to meet the demands of his creditors and last but not least, to save against a rainy day and avoid getting deeper into debt in a hopeless spirit of fatalism when bad times overtake him. We are therefore not in favour of the proposal to introduce a system of licensing money-lenders, either compulsory or voluntary.

The other fraudulent practices which have been already mentioned are the petty exactions for writing and other charges and of certain forms of services and the demand for presents for doing business. The courts are empowered to take these into account

under the Usurious Loans Act in the disposal of cases coming before them. In the English Moneylenders Act there are certain salutary provisions in regard to these and some other important matters. We summarize these provisions below :—

(i) No amount shall be charged by the money-lender for expenses, incidental to or relating to the negotiations for or the granting of a loan by a money-lender.

(ii) The enhancement of interest for default in repayment shall be illegal.

(iii) No contract for the repayment of money lent by a money-lender shall be enforceable if there is no note or memorandum in writing of the contract made and signed by the borrower or if it is proved that the note or memorandum mentioned above was not signed before the money was lent.

We recommend that similar provisions should be introduced in India by legislation in regard to money-lenders as defined in the Punjab Regulation of Accounts Act, 1930. This definition will exclude from the operation of the Act financial transactions between merchants and loans to traders. If it is found necessary in connection with the first of these provisions to permit the money-lender to recover certain classes of expenditure from the borrower, these should clearly be specified in the legislative enactment.

The English Act also goes so far as to prohibit compound interest. We are not prepared to recommend such prohibition as it will only lead to frequent and unnecessary renewals of loans on fresh bonds with interest added to principal and may force the money-lender to have recourse to the courts oftener than at present, thereby increasing his expenses and the interest charged to the borrower.

123. Other important suggestions made for improving the present position are :—

(1) Money-lenders may be induced to join co-operative societies on the condition that they cease lending privately to the members of such societies. We approve of this proposal which is in effect an attempt to bring the wealth and experience of the money-lender inside the co-operative movement. He may fill any position to which he may be elected by the vote of the members. His presence may be invaluable in the managing committees of co-operative societies.

(2) Experiments may be tried to form co-operative societies of money-lenders which should lend to the primary societies and not to individuals. We are not sure

how far such a scheme will be popular among the money-lending class. Although we are told that the money-lender's realized rate of interest is considerably less than his stipulated rate, we do not think that the net return on his capital is so low as to tempt him to confine his loan operations to primary societies and be content with a rate of interest which cannot in the nature of things exceed the rate charged to societies by central banks.

(3) In course of time, joint-stock banks may entrust registered money-lenders as they grow in strength and inspire more confidence, with such agency functions as accepting deposits, making remittances and payments. This would remedy one of the obstacles to branch banking in India, namely, the complete ignorance of the urban banker as to the conditions prevailing in the mufassil and the high cost of running a full-fledged branch in the interior with a responsible manager. We shall deal with this and the proposal in the succeeding clause in the chapter on indigenous bankers.

(4) If business develops, the registered money-lender may be transformed into a full-fledged branch of the financing bank; or if it is desired to limit the liabilities of the bank in a certain place, the bank may enter into a partnership with the registered money-lender on what is known in Germany as the "Kommandit" principle, under which, instead of opening a branch in a place, a bank becomes the financing partner of a local private money-lender, whose advantages of unlimited liability and local knowledge are thus retained without involving the bank in the expense and heavy liabilities of a new branch.

(5) The Bombay Committee recommend that district authorities should watch the conduct of the Pathans engaged in money-lending and take, wherever necessary, the initiative in prosecuting the Pathans if they are found to harass the people. Where complaints about Pathans are common and no proceedings can be taken against them under the ordinary law, they recommend that Government should take action under Section 3 of the Foreigners Act or under some special legislation and deport such money-lending Pathans as are found to be a menace to society. So far as Pathans and other itinerant money-lenders follow in common with other money-lenders some of

the dishonest and fraudulent practices mentioned in our Report, we consider that the measures that we have recommended are sufficient to deal with them. But where these people take extra-legal steps for the recovery of their money as brought out prominently in the report of the Bombay Committee, we consider that special action is necessary for protecting the borrower from the methods employed by them. We readily support the proposals of the Bombay Committee in this matter and we hope that Provincial Governments will take early steps to deal with any such insidious menace to society. We strongly disapprove of the practice brought to light by the Bengal Committee, under which the borrower is made to sign a promissory note stipulating that the loan shall be repaid in any of the several districts mentioned therein, so that in case of default of the borrower the money-lender could sue and obtain an uncontested decree in a distant district and thereafter execute it in the district of residence. We, therefore, suggest that courts should be empowered to dismiss cases of this kind brought before them by money-lenders for recovery of sums due from borrowers in distant districts.

(6) Although there may be no justification for the grant of special facilities to money-lenders for the recovery of their dues which are not available to other classes of lenders, various Provincial Committees have pointed out that the existing hardships experienced by an honest money-lender in recovering his dues are so great that in the interests of both the honest money-lender and the honest borrower it is necessary to take steps to improve the position. The recommendations made by the Provincial Committees in this connection will be found in Appendix III where we have indicated our own views in the matter. On the whole we are satisfied that most of these recommendations will tend to reduce the expenses of the better class of money-lenders and result generally in a reduction of the burden of interest charges now borne by the honest borrower.

CHAPTER VIII.

RURAL FINANCE—(*continued*).

INDIGENOUS BANKERS.*

124. We referred in the previous chapter to the absence of reliable statistics regarding money-lenders. We are confronted with a similar difficulty in the case of indigenous bankers. The following statement gives the information collected by the Provincial Committees :—

Province.	*Number.*
Madras	No figure is given ; the communities that do banking business are the Nattukkottai Chettis, the Multanis, the Marwaris, the Kalladaikurichi Brahmins and the Komaties (Vaisyas).
Bombay	20,000 (estimated, including money-lenders).
Bengal	Number not ascertained, but it is stated that there are only a few indigenous bankers. Number is decreasing.
United Provinces . . .	250 (estimated number of indigenous bankers who are willing to receive deposits ; the number of modern indigenous firms is 7).
The Punjab	66 (according to information obtained from income-tax officers ; distributed over 11 districts ; in 18 districts there is not a single indigenous banker).
Burma	Total number of Chettiyar offices in Burma is estimated at 1,650.
Bihar and Orissa . . .	100,000 (estimated number of persons conducting the money-lending part of banking business. Besides, there are about 700 shroffs and urban money-lenders paying income-tax and a large number not estimated, who do not pay income-tax.
Central Provinces . . .	There is only one indigenous firm which habitually receives deposits as a matter of ordinary business.
Assam	No information.
Central Areas	29 in Ajmer-Merwara, 43 in Delhi and 29 Hindu bankers in the North-West Frontier Province, besides a larger number of Muslims. These figures are, however, not reliable, as they are not based on the definition given in paragraph 107.

* For the difference between indigenous bankers and money-lenders see paragraph 107.

125. No reliable estimates of the capital employed have been given for all the provinces, but it is recognized that amongst the agencies financing agriculture and the internal trade and small industries, the indigenous bankers occupy a prominent position. The Burma Committee have estimated the total of Chettiyar capital employed in Burma at Rs. 75 crores, of which Rs. 53½ crores are supplied by the proprietors of the firms, about Rs. 10 crores are borrowed from non-Chettiyar sources including banks and about Rs. 11½ crores obtained from deposits. The Madras Committee estimates the capital (owned and borrowed) employed in the Presidency by the Nattukkottai-Chettiyar agencies at Rs. 11 crores.

126. As the acceptance of deposits is one of the features that distinguish a banker from a money-lender, we examine below the practice with regard to acceptance of deposits by the various classes of indigenous bankers in the provinces, indicating at the same time the other sources from which these bankers supplement their capital.

Assam.—Indigenous bankers in Assam do not invite deposits and some of them do not accept them. Deposits, if any, are mostly on current accounts and interest is paid generally from 4 to 9 per cent per annum. Fixed deposits are also received by some firms at an interest of 6 to 7½ per cent per annum.

Bombay.—The Bombay shroffs receive call money, short-term deposits and fixed deposits, and keep current deposit accounts as well as fixed deposit accounts. During the busy season they have to replenish their resources by borrowing, which is generally between shroff and shroff, except in Bombay and other big cities where such accommodation is obtained to a certain extent from the Imperial Bank of India and the joint-stock banks on demand promissory notes drawn by two approved shroffs, or by discounting hundis endorsed by them. The rate of interest which the shroffs allow their customers for deposits varies from 4 to 6 per cent in the busy season and from 3 to 4 per cent in the slack season. The official rate of interest of the Marwadi Chamber of Commerce for current accounts is now 6¾ per cent. per annum. It is, however, open to shroffs to increase or decrease the rate by mutual agreement so that the rate usually varies from 3 to 8¼ per cent. The borrowing shroff has also the option to return the money whenever he desires. The call money rate in the Multani bazar varies between 3 to 6 per cent per annum according to the conditions of the money market. The Bombay and Ahmedabad *shroffs* lend money among themselves at a comparatively low rate of interest, 4½ to 6 per cent in Bombay and not more than 6 per cent in Ahmedabad.

Bengal.—The receipt of deposits was once one of the important functions of the indigenous bankers, but this branch of their business has been steadily dwindling owing to the competition of

the large joint-stock banks and of Government on the one hand, and of the co-operative banks and loan offices on the other. The rates of interest paid vary from 6 to 12 per cent on fixed deposits and 3 to 9 per cent on current accounts. It is said that the depositors are attracted to other institutions on account of the sense of security engendered by publicity of operations and businesslike methods of such institutions.

Burma.—The Chettiyars take deposits from non-Chettiyars, amounting at times to as much as 6 crores. The bulk of the deposits are fixed deposits, for three, six or twelve months, either at a fixed rate of interest or at a fluctuating monthly rate of an anna or two below the Chettiyar current rate. The customary period of deposit is three months, and fixed rates of interest are the general practice, being generally 7 to 10 per cent per annum. Current account deposits taken mostly from traders and shopkeepers carry interest ranging from 5 to 11 per cent. per annum. There is also inter-Chettiyar borrowing both in the form of fixed deposits and call money. Further, the Chettiyars borrow money from the Imperial Bank of India and joint-stock banks in the form of loans and overdrafts. This is estimated at a maximum of Rs. 3 crores in the busy season. The rate of interest is 1½ to 2 per cent. above the bank rate in the case of the Imperial Bank and 2 to 3 per cent above the bank rate in the case of other banks.

Bihar and Orissa.—Some shroffs are able to attract deposits, but generally speaking this business has declined and is declining since the shroff, with his present methods of banking business and the combination of such business with trade and other activities cannot inspire the same confidence as attaches to Government, Government-aided institutions, or joint-stock banks with their open methods of business and audited balance-sheets. Most of these deposits come from the shroffs' acquaintances or those with whom they have business dealings. Some shroffs are however able to attract deposits from the general public. All deposits are on current account, and the interest rates vary from 4 to 6 per cent in the case of first-class shroffs and from 6 to 9 per cent in the case of second-class shroffs, depending upon the amount of the deposit, its probable duration, the personal relations existing between the shroff and the depositor and the state of the market. Shroffs also borrow money from banks and other shroffs on cash credits and *khata peta* advances against hundis.

Central Provinces.—The firm of Bansilal Abirchand is the only indigenous firm in the province which habitually receives deposits as a matter of ordinary business. Deposits are more often taken by bankers who have extensive business of other sorts and are used for financing their business other than banking. All indigenous bankers state that deposits constitute a very small fraction of

their working capital. Current deposits are very rare and the rate of interest on such deposits seldom exceeds 3 to 4 per cent per annum. Fixed deposits are generally for six months or for twelve months. The rate of interest is about 5 to 6 per cent per annum on fixed deposits for twelve months; and in regard to fixed deposits for six months, it is 6 to 7½ per cent in the case of the best bankers in the busy season and 2½ to 3¾ per cent in the slack season. Bankers who have surplus cash utilise it by buying *muddati* hundis from other bankers, the rate for such transactions being about 5 per cent per annum.

Central Areas.—(i) *Ajmer-Merwara.*—Only 3 of the indigenous bankers in Ajmer-Merwara raise substantial amounts by deposits. The general tendency is to avoid receiving deposits except from personal friends and relatives who are not likely to embarrass the bankers by demanding back money at inconvenient times. Some of the indigenous bankers are reluctant to give even 3 per cent on deposits but those who depend for their finance on deposits pay interest varying between 3 and 5½ per cent. The rate of interest on loans among bankers is 3 per cent in the dull season and goes up to 6 per cent in the busy season.

(ii) *Delhi.*—Indigenous bankers in Delhi do not generally take deposits except from personal friends and relatives and the more substantial of them do not accept any deposits. Only about five or six accept demand deposits. The rate of interest on deposits varies between 3 and 5 per cent. The total deposits taken are estimated at less than Rs. 5 lakhs. Funds are raised mainly by the sale of hundis, and also to some extent by the rediscounting of usance and demand bills and on cash credits from banks. Cash credits are also quite common as a form of inter-lending among the indigenous bankers themselves. The rate of inter-lending among bankers is usually under 6 per cent per annum.

(iii) *North-West Frontier Province.*—The amount of deposits taken by indigenous bankers in the North-West Frontier Province appears to be substantial in the aggregate. The rate of interest varies between 3 and 8 per cent according to the standing of the shroff. Though some of the shroffs do not vary the rate in different seasons, generally speaking there is a difference of about 2 per cent in the rates between the busy season and the slack season. Big shroffs, however, avoid deposits. Some of the shroffs borrow from the Imperial Bank of India and rediscount their bills in the busy season.

Madras.—The Chettiyars take deposits, both current and fixed, but they do not now take much of the former as they do not keep fluid resources. The rates of interest allowed for deposits vary and the average rate for current deposits during 1928-29 was 8·92

per cent per annum. The Chettiyar bankers borrow from the Imperial Bank of India on joint signatures usually at 1 per cent above the bank rate.

The Multanis rely for their funds mainly on their own personal resources. They also borrow at comparatively low rates, namely, 4 to 6 per cent, from their community at Shikarpur. They do not receive large sums in deposit, but they take current deposits locally at rates varying from 3 to 6 per cent. They also borrow at the bank rate from the joint stock banks, chiefly the Imperial Bank, the Indian Bank and the foreign exchange banks.

The Marwaris do not obtain large funds by local deposits, nor do they borrow on a large scale from other banks. They rely on the funds of the community in Rajputana which are usually available at the rate of 4 to 7 per cent.

The Kalladaikurichi Brahmins take fixed deposits at 6 to 9 per cent and current deposits at 5 to 7 per cent. They also borrow and their borrowings roughly equal their owned capital.

Punjab.—Funds are raised by deposits, by drawing hundis and rediscounting them, and by loans and cash credits secured on house property or Government securities. The owned funds of the indigenous bankers in most cases are less than their borrowings. All do not take deposits, but those who take them pay anything up to 6 per cent according to market conditions and the period of deposits. On hundis and loans, the rates vary with the bazar or the bank rate according as the dealings are with the bazar or a bank. The bazar rate for first class hundis is $\frac{1}{2}$ to 1 per cent below the bank rate.

United Provinces.—Although indigenous bankers are reluctant to accept deposits and rely more on their own capital, on such deposits as they receive they pay interest at rates which vary with the demand of the season. They borrow from one another at rates varying from $4\frac{1}{2}$ to 9 per cent, 6 per cent being the most common rate.

NATURE, EXTENT AND METHODS OF BUSINESS.

127. As in the case of money-lenders, the indigenous banker's operations are not attended with formalities and delays. His accounts are kept in a simple and economical way but are accurate and efficient. He is easily and always accessible. His establishment is not costly and there is no elaborate staff. Generally speaking he receives no special banking education, except what is picked up in the course of business and from past experiences of his firm.

128. It is not ordinarily practicable for the indigenous banker to establish direct business relations with the ryot. He finances agriculture through local sahukars or money-lenders. In Burma most of the Chettiyar's loans are made to agriculture and a peculiar feature of the finance is that the Chettiyar sends out one of his clerks to the villages to deal with local borrowers. In Bihar and Orissa the indigenous banker lends to grain merchants and *goladars*, and advances directly to zemindars and ryots who have an easy access to towns. In all provinces, he also indirectly finances agriculture by financing internal trade. In provinces where the Land Alienation Acts are in force, the indigenous banker has ceased to advance against agricultural land.

129. While his relations to agriculture are generally, except in Burma, indirect, he has always maintained a close personal touch with the trader and the small industrialist. We shall deal in a later chapter more fully with the important part played by the indigenous banker in financing trade and industry, but it may be pointed out here that in connection with such financing operations he does a good deal of general banking business which is done by joint-stock banks, such as buying and selling remittance, discounting hundis, receiving deposits, and advancing loans against stock in trade. Some of the indigenous bankers issue cheque books, but the cheques have only a limited local circulation.

130. The majority of indigenous bankers combine banking with some form of trade, and the capital employed in banking is not distinguished from that employed in trade. The Punjab Committee observe, and this is confirmed by other Committees as well, that their banking business has considerably declined owing to the competition of the joint-stock and co-operative banks and that they have been tempted to make up for their lost ground in banking by developing trading activities. Other reasons given for the decline are the loss of agency business in *mandis* by the indigenous bankers, owing to the establishment of branches of exporting firms; the heavy stamp duty on bills which has led to a restriction of their bill business; and to some extent the temptation to speculate, which exists in trade to a very much larger extent than in banking. There are at the present day three kinds of indigenous bankers :—

(i) those who confine their business to banking proper or whose principal business is banking,

(ii) those who are principally traders or merchants but employ their surplus funds in banking business, and

(iii) those who are both bankers and traders and cannot be easily classified as principally bankers or principally traders.

RATES OF INTEREST.

131. The rates of interest charged by indigenous bankers on advances are summarized below :—

Name of Province.	Nature of Security.	Rates of interest.	Remarks.
		Per cent.	
Assam . . .	(1) Village money-lender on condition of receiving crops for sale.	9—12	
	(2) Other customers .	18	
Bengal . . .	(1) Secured loans .	7½—15	
	(2) Unsecured loans .	18—37½	
	(3) *Khata Peta* . .	6¾—9	
	(4) Promissory notes or *Purjas* or *hundis*.	2—9	
Bihar and Orissa .	(1) *Khata Peta* (Money at call).	6¼—9	
	(2) *Muddati hundis* .	4—12	
	(3) To non-traders (depends on the position of the parties).	12—18	
Bombay . . .	For internal trade and other purposes.	6—12	
Burma . . .	Above Rs. 5,000 in Rangoon.	10·5—12·75	
	Elsewhere—		
	(1) Against gold . .	15—21	Varying with reference to amount of loan.
	(2) Against land, house property or paddy in godown.	12—24	
	(3) On pro-notes without security.	16·5—30	
Central Areas .	*Ajmer-Merwara.*		
	(1) Ornaments . .	6—7½	Rates do not vary with the seasons.
	(2) Produce and Railway receipts.	7	
	(3) Landed property .	9	
	(4) Personal security (according to standing of parties.)	6—9	

Name of Province.	Nature of Security.	Rates of interest.	Remarks.
Central Areas—*contd.*		Per cent.	
	Delhi.		
	(1) Mortgage of property.	9—12	
	(2) Ornaments . .	9—10½	
	(3) Verbal security for 8 to 10 days.	6	
	(4) Loans to *artias* and cloth merchants.	7½	
	(5) To grain dealers, fruit and vegetable merchants.	9—12	
	North-West Frontier Province.		
	(1) Ornaments . .	9	
	(2) Verbal security .	8—9	
	(3) Pro-notes for 60 days.	5—8¾	
	(4) *Muddati hundis* .	4½—8½	
Central Provinces .	(1) Gold and silver ornaments.	7½—9	
	(2) Grain and other produce kept in the godown of the lender.	7—7½	
	(3) Other cases . .	7—18	
Madras . . .	(1) First class mortgages in towns.	9—12	Chettiyars.
	(2) First class mortgages in villages.	9—15	Chettiyars.
	(3) Clean loans—		Chettiyars.
	(*a*) town . .	9—12	Chettiyars.
	(*b*) villages . .	9—18	Chettiyars.
	(1) Small loans . .	9—13	Multanis.
	(2) Weak Security .	18—24	Multanis.
	(1) Mortgages . .	9—12	Marwaris.
	(2) Produce . .	12—15	Marwaris.
	(3) Pro-notes . .	12—18	Marwaris.
	(1) *Hundis* . .	9—12	Kalladaikurichi Brahmins.
	(2) Other loans . .	up to 15	Kalladaikurichi Brahmins.

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Name of Province.	Nature of Security.	Rates of interest.	Remarks.
		Per cent.	
Punjab . . .	For short-term loans from 2 to 6 months for trade and industry or in the case of agriculture till the next harvest.	8—9	Advances are made against all the usual forms of security, but principally against house property and ornaments. A few give advances on personal credit.
United Provinces .	(1) Pro-notes and mortgage of landed and house property.	7½—12	Usual rate is 9 per cent.
	(2) Ornaments . .	7½—12	According to amount and material.

RELATIONS WITH ORGANIZED BANKING INSTITUTIONS.

132. In Bombay, indigenous bankers whose names are on the approved lists of joint-stock banks including the Imperial Bank of India get advances from these banks up to certain limits assigned to each. In fixing these limits, the Imperial Bank takes into account other factors besides a party's worth. Banks also make advances against *shroffs' hundis*, the period of which is usually 60 days. In Bihar and Orissa, the local joint-stock banks do very little *hundi* business with indigenous bankers, who are rivals rather than customers of these banks. The Imperial Bank, however, affords them facilities to rediscount their hundis in the busy season. In Bengal, the indigenous banking firms of repute avail themselves of the rediscounting facilities offered by the Imperial Bank, the joint-stock banks and in some cases by exchange banks. The indigenous bankers in Assam have practically no dealings with the joint-stock banks, nor do they make much use of the Imperial Bank branches. Some of the Marwaris, however, have current accounts at these branches and can get cheques and hundis cashed there. The Imperial Bank and joint-stock banks make advances to Chettiyars in Rangoon in the form of loans and over-drafts, on the security of Government paper and on promissory notes payable on demand. The rate of interest is based on the bank rate and varies according to the season. The Imperial Bank is prepared to rediscount the hundis of indigenous bankers in the Punjab at about ½ per cent. above the bank rate but it is reported that the indigenous bankers do not resort much

to the bank. In the United Provinces, the accommodation which the indigenous bankers receive from joint-stock banks is neither free nor regular, but is sought occasionally and only in the last resort when the bankers' own funds are exhausted and other bankers give no further credit. This is explained as due to their inability to furnish adequate security and their refusal to disclose their accounts or publish a balance sheet, making it impossible for the banks to assess the true financial position of the indigenous bankers. In Delhi, the indigenous bankers rediscount about 25 per cent. of *muddati* hundis with the Indian joint-stock banks including the Imperial Bank and keep deposits with them when the market rate of interest is low. On the whole, in Delhi, the indigenous bankers get in times of need more credit from the Indian joint-stock banks than from the Imperial Bank.

133. In all the provinces, the indigenous bankers get remittance facilities from the Imperial Bank, on the same terms as the general public do. The special concessions given to the joint-stock banks are not extended to the indigenous bankers, as the indigenous bankers do not keep any balances with the Imperial Bank and do much less business with that bank than the joint-stock banks do.

Organization.

134. In a few centres in the Bombay Presidency, indigenous bankers have organized themselves into associations, *e.g.*, the Bombay Shroffs' Association, the Ahmedabad Shroffs' Association, and the Marwadi Chamber of Commerce. There is also an association of *shroffs* at Calcutta. Each association conducts its business on well-defined lines and is governed by its own regulations. Members of one association have dealings with those of another, but there is no organization for interchange of intelligence. The indigenous bankers work independently of one another. Co-ordination is lacking among the various classes of bankers, though certain sections of them, such as the Marwadi bankers and the Vaishya bankers at Agra, are always prepared to help the members of their fraternity out of trouble.

Linking the Indigenous Bankers with the General Banking System.

135. Various proposals have been made for linking the indigenous bankers with the general banking system. This is considered necessary as it will be long before it is possible to have properly organized branches of commercial or co-operative banks scattered all over India. Moreover, the indigenous bankers have been traditionally dealing with *hundis* and it is thought that their training, experience and resources will be helpful to encourage and

develop the bill habit. The Assam Committee, however, observe that the indigenous banker will be a useful link in rural finance only when conditions are brought about under which the village money-lender will finance cultivation on reasonable terms against reasonably good securities. From this point of view it has been suggested that if any increased facilities are to be made available, they should preferably be given to co-operative organizations, as the benefit would more directly descend to the cultivators than if the facilities were given, say, to indigenous bankers. It may also be mentioned in this connection that in the opinion of the Punjab Committee, the indigenous banker is bound to give way as commercial banking expands and that if such expansion continues, it is only a matter of time before the indigenous banker becomes extinct.

136. The proposals made by Provincial Committees are briefly summarized below :—

(1) The indigenous banker should be linked with the Central Banking Institution of the country as its agents at least in places where no other type of banking organisation is functioning and should be subjected to restrictions which will eliminate risks arising from speculation and his own business. As regards the Imperial Bank of India, the Managing Governor states in his evidence that at present that Bank utilizes the services of leading merchants and shroffs in the mofussil for the collection of bills and cheques; the Bank has found this arrangement very convenient and has never lost anything by using that agency; but the Bank has consistently opposed their agents undertaking any business on their own account. He adds that if a *shroff* were appointed as agent of the Bank to do general banking business on behalf of the Bank, the *shroff* would not only expect to carry on his own business but also to do business which would be in competition with the Bank. Further the Bank could not very well differentiate and, if its other agents wished to do money-lending business, it would almost be impossible to stop them. Another aspect of the proposal as brought out by him is that, if the *shroff* guaranteed the business he put through for the Bank, the Bank would have to allow him to take any steps he desired in times of stress to protect his own interests. These steps might conflict with the Bank's policy and result in undue pressure being put on constituents at a time when a more lenient course would be in the interest of the country as a whole.

(2) Indigenous bankers satisfying certain conditions should be treated as 'member banks' on the approved list of the Reserve Bank when created. They should be required to keep a proportion of their deposits with the Reserve Bank and should get the same facilities for rediscounting commercial paper as other joint-stock banks who are member banks, subject to certain obligations,

such as the submission of their account books to periodical inspection and conforming to the standard prescribed by the Reserve Bank.

(3) Commercial banks including the Imperial Bank might discount the bills of indigenous bankers more freely. It has, however, been pointed out by the Managing Governor of the Imperial Bank that the question of discounting and rediscounting is largely a matter of security, and that good security commands all the banking facilities to which it is entitled. The following extract from the Report of the Bengal Committee tells a different tale :—

> "In the mofussil it has been stated that the branches of the Imperial Bank evince a lack of sympathy in their attitude towards the indigenous bankers. Evidence has been received from two firms in Dacca that the local branch of the Imperial Bank refuses to rediscount *hundis* bearing the endorsements of even the firms of highest repute in Dacca town. A complaint has also been made that the Imperial Bank does not afford any special facility or consideration even to the old, reliable and substantial Indian firms".

(4) In order to retain public confidence, indigenous bankers should re-organize themselves on modern lines and become whole-time bankers by combination and other suitable devices, if necessary. They might follow their own system of account keeping, and Government should encourage re-organization on these lines by appointing such institutions, when formed, to be Government bankers leaving the Government balances with them at those places where there is no branch of the Imperial Bank.

(5) With a view to creating public confidence in the indigenous banker, a class of licensed bankers should be instituted on whom certain privileges should be bestowed in return for certain definite obligations imposed on them. The privileges are (1) a special summary procedure for determination of their suits and for the execution of the decrees; (2) special legal enactment or directions laying down that no court shall be at liberty to vary the rates of interest stipulated in the transactions to which these licensed bankers are parties so long as these rates are within a prescribed schedule; (3) a definite assurance that the Imperial Bank shall not ordinarily open a branch at any place where the licensed indigenous banker is working; (4) facilities to remit free of charge through the post office, under certain conditions; (5) facilities for remittance of funds through the Imperial Bank or the Reserve Bank at the same rates as are charged to all joint-stock banks; (6) grant of a substantial rebate of duty on *muddati hundis* under certain conditions; (7) grant of rediscount facilities by the Imperial or the Reserve Bank on the same terms as those enjoyed by the joint-stock banks

subject to certain maximum limits fixed by the Imperial or the Reserve Bank; (8) grant of advances against gold and silver ornaments by the Imperial or the Reserve Bank at a profitable rate under certain conditions prescribed by the bank; and (9) provision for the satisfactory examination and audit of account books of licensed indigenous bankers by a committee elected by the local Shroffs' Association in cases of applications for declaration of insolvency by a licensed indigenous banker. The obligations to be imposed in view of the above-mentioned privileges relate to: (i) proper audit of their accounts; (ii) proper conduct of their business in accordance with the rules drawn up by a local Indigenous Bankers' Association; (iii) limitation of the maximum rates of interest to be charged for different kinds of business to be fixed from time to time by the licensing authority on the recommendation of the local Shroffs' Association; and (iv) the maintenance of a cash reserve on a prescribed scale.

OUR PROPOSALS.

137. We have carefully considered the suggestions in the foregoing paragraphs and we have come to the conclusion that for various reasons it is important that some action should be taken to improve the position of the indigenous banker and to make him a useful member of the Indian banking system. In the first place, some of the indigenous bankers, at any rate, deserve encouragement and help. Generally speaking, the indigenous banker's rates of interest do not compare unfavourably with those of ordinary joint-stock banks and his beneficent sphere of influence is wider than theirs, but he has fallen on evil days. At a time when margins between borrowing and lending rates are diminishing and there is an urgent need for more funds for enabling him to have a larger turnover of business, he finds the sources dried up, due, no doubt, partly to his own fault, but partly to circumstances beyond his control. Secondly, action is necessary in the interests of agriculture, trade and industry of the country. We are impressed by the fact that out of 2,500 towns* in India, joint-stock banks and their branches exist in less than 400 places, and for banking facilities elsewhere, agriculturists, traders, merchants and small industrialists have to depend largely on indigenous bankers and moneylenders. In many provinces, even in localities where a joint-stock bank or its branch exists, the indigenous bankers continue to render valuable service in connection with the financing of internal trade and middle-sized and small industries and inland remittance work. A large section of the community is thus still dependent on the

* As defined in the Census Report. They include every municipality, all civil lines not included within municipal limits, every cantonment, and every other continuous collection of houses inhabited by not less than 5,000 persons which the provincial superintendent may decide to treat as a town for census purposes.

indigenous bankers for the financial facilities it requires. From a study of the history of the progress of joint-stock banks in India, we are convinced that it will be a long time before India will have a widespread network of joint-stock banks or branches of such banks. Further, although co-operation has, as pointed out in a later chapter, made remarkable progress in the country since the movement first started in 1904, its extension on such a scale as to replace the indigenous bankers cannot be envisaged within a measurable distance of time. The Imperial Bank of India which has opened 100 branches during the last ten years in accordance with the agreement entered into with Government under the Act governing their operations, in view of the fact that many branches have not yet reached the profit-earning stage is not likely to go in for further schemes of expansion for some years to come. We think it therefore of the greatest importance that in the interests of both the general public and the indigenous bankers themselves, steps should be devised to strengthen the position of these bankers.

138. We are not in favour of any compulsory measures with a view to reform or help the indigenous bankers, nor do we think that any such measures will be welcomed by the indigenous bankers themselves. On the other hand from the evidence that we have received we gather that any such compulsion would only accelerate the process of driving out these bankers from banking proper to other spheres of business. This would create a large gap in the banking system of the country which would be detrimental to national interests. Our aim on the contrary should be to try to restore these bankers to the place which they enjoyed in India until the middle of the last century.

139. Our first proposal therefore is that as soon as the Reserve Bank is established the indigenous banker should along with joint-stock and co-operative banks be brought into direct relations with the Reserve Bank, and thereby provided with rediscount facilities from that institution. It must, however, be remembered that the Reserve Bank can only rediscount bank-endorsed paper. We therefore propose that only such indigenous bankers as are engaged in banking proper, or are prepared to shed their business other than banking, should be eligible to be placed on the approved list of the Reserve Bank in the same manner as joint-stock banks. In the case of the latter, the Reserve Bank Bill of 1928 fixed a certain standard, that is, that the member bank should have a capital and reserve of Rs. 3 lakhs and over. Similarly in the case of the indigenous bankers we admit that it is necessary to have a standard. As our object, however, is to bring into the scheme of the Reserve Bank as many sound indigenous bankers as possible, and as we are not in a position to arrive at any figure of owned capital which would achieve this end, we prefer to leave it to the Reserve Bank to prescribe a standard which an indigenous banker must

satisfy before he can be given the concession which we are recommending in this paragraph. At the same time it must not be understood that we contemplate that the standard of owned capital for indigenous bankers would be as high as that for joint-stock banks. Such an indigenous banker must also agree to have proper books of accounts kept in the usual recognized manner and to have them audited annually by recognized auditors, that is, auditors holding a Government diploma who are permitted by Government to audit the accounts of any public company. These books should also be available to the Reserve Bank for inspection and audit.

140. We are aware that in the Reserve Bank Bill referred to above there is a provision requiring member banks to maintain a certain percentage of their time and demand liabilities as interest-free balances with the Reserve Bank. We have carefully considered the question whether we should insist on the indigenous bankers in our proposed scheme following a similar rule. On the one hand it is argued that if the indigenous banker desired to have facilities from the Reserve Bank in the same manner as a joint-stock bank, he should be prepared to fulfil the same obligations. On the other hand it is suggested that the *raison d'etre* of these compulsory deposits is to enable the Reserve Bank to control the credit policy of its member banks and that so far as the majority of indigenous bankers are concerned, the deposits they receive and the operations they carry on, though large in the aggregate, are individually small and that, therefore, the principle of compulsory deposits cannot apply with the same force as it applies to joint-stock banks. We further recognize that it is difficult for small indigenous bankers in rural areas with no elaborate staff to make the calculations and to furnish the returns necessary for the observance of this rule. We see a great deal of force in these arguments and we also feel that any measure compelling all the indigenous bankers, big and small, to leave certain interest-free balances with the Reserve Bank will rob our proposal of much of its attractiveness and instead of resulting in indigenous bankers coming withing the sphere of the Reserve Bank system in large numbers will only bring in a few. We, therefore, propose that such of the indigenous bankers whose deposits do not exceed five times their capital should during the first five years of the working of the Reserve Bank be exempt from the rule relating to compulsory deposits. At the end of that period it would be left open to the Reserve Bank to take such action in the matter as it may consider necessary in order to make its credit policy effective.

141. We have given full details in a previous paragraph of the lending and borrowing rates of indigenous bankers. These compare favourably with the rates of joint-stock banks and it is our firm belief that when the rediscounting facilities which we have proposed are offered, the indigenous bankers will be able to

reduce still further their rates on advances to the public. We do not, therefore, feel any necessity to impose any condition as to the maximum rate of interest to be charged by these bankers as a *quid pro quo* for the facilities we offer, nor do we think it advisable to impose on the indigenous bankers any conditions which would not equally apply to the other member banks of the Reserve Bank. With a view to meet the apprehensions of those who want to be assured that the facilities afforded to these member banks will be passed on in a large measure to the public, we propose to leave it to the Reserve Bank to see that institutions receiving rediscount facilities from it should not charge to the public rates which in its opinion are unduly high.

142. The proposals that we have made above will go far to improve and raise the status of the class of indigenous bankers in India. With the same purpose in view, the Reserve Bank and the commercial banks in India may use such indigenous bankers who are members of the Reserve Bank system as agents for collection of cheques and bills in the same manner as they may use a joint-stock bank or a co-operative bank. We do not recommend the grant of any other privileges mentioned in clause (5) of paragraph 136 above except that relating to facilities for remittance of funds through the Imperial Bank of India or the Reserve Bank at the same rates as are charged to all joint-stock banks. This latter privilege should automatically be accorded to the indigenous bankers who are included in the schedule of member banks of the Reserve Bank. Further the benefits of the Bankers' Books Evidence Act should be extended to such indigenous bankers as are placed on the approved list of the Reserve Bank.

143. We have already pointed out in paragraph 107 that the dividing line between an indigenous banker and a money-lender is rather thin. That being the position, we desire it to be clearly understood that the proposals made by us in paragraphs 137 to 142 should apply equally to money-lenders who satisfy all the conditions which we have prescribed for indigenous bankers.

144. It is quite conceivable that a large number of indigenous bankers whose principal business is not banking, or who do not take to banking as their principal business as soon as the Reserve Bank is established, will still remain outside the scope of our proposals. These will continue to obtain their banking facilities from the existing joint-stock banks, including the Imperial Bank of India. We have already referred to the complaint that good security does not always command all the banking facilities to which it is entitled, and some of the Provincial Banking Enquiry Committees have pleaded for the adoption of a more liberal policy by the Imperial Bank of India. We strongly support this plea and commend it for the sympathetic consideration of the Imperial Bank and other joint-stock banks in the country.

145. We may in this connection refer to a recommendation we have made elsewhere, namely, that an Association of all banks and bankers should be formed as early as possible and that such indigenous bankers whose bills the Reserve Bank decides to accept should become full members of the All-India Bankers' Association and in addition be entitled to use the designation "Member of the Central Bankers' Association". Such of the banks and indigenous bankers as are outside the Reserve Bank system might be made associate members. We are sure that this proposal, in addition to giving these indigenous bankers a status, will also tend to raise the standard and improve their banking methods. This proposal will not stand in the way of the formation of local indigenous bankers' associations such as those that now exist in Bombay and other centres for facilitating co-operation and joint action by indigenous bankers of the locality.

146. Other lines of advance suggested are :—

(*a*) Amalgamation of the business of local indigenous bankers into joint-stock banks;

(*b*) Establishment of what are known in Germany as "Kommandit" principle banks;

(*c*) Formation of a co-operative bank of indigenous bankers, which would discount the *hundis* of the members and rediscount the same with the Reserve Bank; and

(*d*) Adoption of bill-broking as an integral part of the indigenous bankers' business.

We consider that it is for the indigenous bankers themselves to carry out reforms on the lines suggested above. We are of the opinion that if they bring their system of operations more into line with the customs and practices of commercial banks in the matter of audit and accounts, use of bills and cheques, prompt payment and receipt of moneys and conduct of business strictly in accordance with legal requirements, they can take their proper place in the banking system of the country. We have already referred to the suggested introduction of the "Kommandit" principle in the proposals of the preceding chapter relating to money-lenders. We agree that the suggestion is one which should receive the serious consideration of existing banks in India in order to extend the sphere of their activities without the risk and expense of opening new branches. We feel that if the better class of both money-lender and indigenous banker would carry out the reform we have suggested, there are considerable possibilities of mutual benefit for both joint-stock banks and their indigenous agencies, as well as benefit to the trading community as a whole by the provision of improved banking facilities.

147. Mr. Ramadas Pantulu has put in a supplementary minute in which he apparently wants action to be taken beyond what we have recommended in our report. We see no reason to modify the recommendations which we have already made.

CHAPTER IX.

RURAL FINANCE— contd.

CO-OPERATIVE ORGANIZATION.

History of movement.

148. "Co-operation" was officially set up in India with the passing of the Act of 1904. Co-operation was not defined in that Act, but it is generally understood as a voluntary organisation of persons who associate on equal terms for the satisfaction of their common economic needs. Before the passing of the Act of 1904, experiments were made by various officials including Sir Edward Maclagan and Captain Crosthwaite in the Punjab, Mr. Dupernex in the United Provinces and Mr. Lyon in Bengal. The societies organized by them could at that time be registered only under the ordinary Company Law. A few societies then organized still survive in the Punjab. The Act of 1904 was restricted mainly to credit co-operation. We are told that the general impression that co-operative credit alone was the object kept in view at the outset by the Imperial legislators is not correct and that the restrictive scope of the Act of 1904 was "a slip" which was sought to be remedied as quickly as possible. In the course of 7 or 8 years of working of the Act of 1904, it became evident that much progress could not be made under it in the matter of developing rural credit. The entire working capital of the movement in the year 1912 was less than Rs. 75 lakhs. In that year, a second Act was passed in supersession of the Act of 1904. The new Act II of 1912 expressly recognized the extension of co-operative activity to more complex forms such as secondary bodies like central banks and unions to finance and supervise the primary societies. Provision was also made for the registration of societies of various types aiming at the promotion of economic interest of their members, *e.g.*, societies dealing not only with credit but also with purchase and sale, insurance and other various specialized functions carried out by the most recent types of societies elsewhere.

149. With the passing of the Act of 1912 the movement entered on the second stage of its progress. It must, however, be mentioned that in spite of the removal of the limitations imposed by the original Act, and the creation of scope for several forms of non-credit activities, the preponderating element in Indian co-operation is still credit. This appears to be natural not only because credit is the simplest example of co-operative endeavour that can be introduced among a rural population which is largely illiterate, but also because credit continues to be the most insistent need of the Indian cultivator, who is weighed down by the burden of usury and chronic debt which crush "the life and thought" of rural India.

150. The movement entered on its third stage of development after the publication of the classic report of the Maclagan Committee on Co-operation in 1915. That Committee examined the movement in all its aspects and made many constructive proposals of a far-reaching character for the further development of co-operation. Provincial co-operative banks have since been established in all the provinces except the United Provinces, largely as a result of the recommendations of that Committee.

151. On the passing of the Government of India Act of 1919, Co-operation became a provincial subject to the Transferred Departments, and the movement can be said to have entered on the fourth stage of its development since it began to be administered by the ministers under the reformed constitution of the Provincial Governments. During the earlier years of the working of the reformed constitution, the development ministers evinced much interest in the expansion of the movement, and since 1921 there has been a large addition to the number of societies all over India. Later efforts are, however, being directed more largely to the consolidation and rectification of existing societies than to further rapid expansion. The provinces of Bombay and Burma have replaced the Act of 1912 by local legislation in 1925 and 1927 respectively. In Madras a Bill to replace the all-India Act has been introduced into the local legislature. Another important step taken in connection with encouraging co-operation, after it became a provincial subject, has been the institution of committees of enquiry by various provinces. The Oakden Committee of the United Provinces of Agra and Oudh, the King Committee of the Central Provinces, the Townsend Committee of Madras and the Calvert Committee of Burma have already published their reports. The appointment of similar committees in other provinces is under contemplation. Some of the Provincial Banking Enquiry Committees have definitely recommended the appointment of such committees.

THE PRESENT POSITION.

152. Started in 1904 with no antecedent record and having made but negligible progress till 1912, the movement has today assumed large proportions particularly in regard to the aggregate numbers of societies, their membership and working capital. The number of societies in British India and the Indian States is now nearly 100,000, of which about 15,000 are in nine or ten Indian States. The credit societies alone in British India number over 78,000 on the 30th June 1930 and count more than three million members with a working capital of over Rs. 40 crores. Their average membership is somewhere between 30 and 40. The number of non-credit societies on the same date is about 16,000 with a membership of 650,000 and working capital of about Rs. 6

crores. The central financing institutions like the central banks and the banking unions are nearly 600 in number, of which about 500 are in British India. The entire working capital in the movement is about Rs. 50 crores (excluding loans made by secondary bodies to primary societies and deposits made by the latter with the former). Of this amount, about Rs. 14 crores consist of share-capital and reserve, and the rest of deposits and loans from members and non-members. On the familiar assumption that a rural family consists of 5 members on the average, the membership of three million means that 15 million people in India have been touched by the co-operative credit movement, the percentage of the population benefited by the movement in various provinces is as follows :—

Province.	* Proportion of members of agricultural societies to families in rural areas.	
	All societies.	Credit societies.
	Per cent.	Per cent.
Ajmer-Merwara	15·4	15·0
Assam	2·9	2·9
Bengal	4·4	3·8
Bihar and Orissa	3·2	3·1
Bombay	10·0	8·7
Burma	3·9	3·7
Central Provinces and Berar	2·4	2·3
Coorg	36·2	36·2
Delhi	11·5	11·5
Madras	8·3	7·9
North-West Frontier Province	0·2	0·2
Punjab	10·9	10·2
United Provinces	1·8	1·8

* Report of the Royal Commission on Agriculture in India, 1928, paragraph 372.

153. We give below certain recent statistics (as on the 30th June 1930) relating to the co-operative movement in India :—

I.—Agricultural Credit Societies (including mortgage banks).

—	Number of Societies.	Membership.	In thousands.			
			Share Capital and Reserve.	Deposits.	Loans.	Total Working Capital.
			Rs.	Rs.	Rs.	Rs.
Ajmer-Merwara	513	11,203	7,83	41	8,64	16,88
Assam	1,282	52,579	7,57	5,02	16,57	29,16
Bengal	19,156	456,139	1,27,39	34,38	3,28,55	4,90,32
Bihar and Orissa	8,624	211,778	42,04	8,19	1,88,40	2,38,63
Bombay	4,526	265,325	77,37	1,16,65	1,93,28	3,87,30
Burma	2,282	52,945	86,78	9,61	61,17	1,57,56
Central Provinces	3,950	59,308	31,79	7,66	1,32,11	1,71,56
Delhi	217	5,173	2,12	32	5,92	8,36
Madras	12,540	674,590	1,27,55	9,72	5,26,89	6,64,16
N. W. F. P.	152	4,122	57	3	2,80	3,40
Punjab	16,125	483,423	2,57,40	70,20	4,51,30	7,78,90
United Provinces	5,943	117,661	46,14	2,61	51,28	1,00,03
Total	74,410	2,394,246	8,14,55	2,64,89	19,66,91	30,46,26

II.—Non-Agricultural Credit Societies (including urban banks).

—	Number of Societies.	Membership.	In thousands.			
			Share Capital and Reserve.	Deposits.	Loans.	Total Working Capital.
			Rs.	Rs.	Rs.	Rs.
Ajmer-Merwara	67	2,176	1,00	3,26	42	4,68
Assam	11	186	5	..	3	8
Bengal	456	147,573	74,81	1,75,21	6,48	2,56,50
Bihar and Orissa	56	1,247	96	10	2,36	3,42
Bombay	580	194,421	91,82	2,29,31	10,94	3,32,07
Burma	77	17,458	33,17	26	7	33,50
Central Provinces	70	16,097	6,47	6,25	91	13,63
Delhi	38	1,582	39	1,09	38	1,86
Madras	1,151	221,475	88,52	65,53	1,11,68	2,65,73
N. W. F. P.	3	714	59	85	..	1,44
Punjab	1,092	50,366	25,04	44,45	26,66	96,15
United Provinces	156	3,138	1,24	8	1,54	2,86
Total	3,757	656,433	3,24,06	5,26,39	1,61,47	10,11,92

* The dates vary with reference to the Co-operative year in each province : the latest figures available are given.

III.—Non-Credit Societies of all kinds (including Sale Societies).

—	Number of Societies.	Membership.	In thousands.			
			Share Capital and Reserve.	Deposits.	Loans.	Total Working Capital.
			Rs.	Rs.	Rs.	Rs.
Ajmer-Merwara	51	5,126	1,67	29	1,40	3,36
Assam	26	3,034	68	42	7	1,17
Bengal	2,736	122,424	23,36	7,48	51,67	82,51
Bihar and Orissa	8,949	258,944	58,47	21,93	1,95,81	2,76,21
Bombay	504	102,994	34,87	36,67	56,05	1,27,59
Burma	15	1,411	71	5	2	78
Central Provinces	55	3,732	1,78	1,84	80	4,42
Delhi	15	442	14	8	2	24
Madras	437	40,147	8,37	2,54	7,36	18,27
N. W. F. P.	10	839	49	15	..	64
Punjab	2,959	105,141	41,67	9,32	4,72	55,71
United Provinces	163	5,562	55	22	43	1,20
Total	15,920	649,796	1,72,76	80,99	3,18,35	5,72,10

IV.—Central Banks and Banking Unions.

—	Number.	Members.		In thousands.			
		Individuals.	Societies.	Share Capital and Reserve.	Deposits.	Loans.	Total Working Capital.
				Rs.	Rs.	Rs.	Rs.
Ajmer-Merwara	7	800	780	4,17	15,53	4	19,74
Assam	15	462	1,118	2,63	13,58	2,75	18,96
Bengal	116	4,652	19,071	78,03	2,64,91	1,12,76	4,55,70
Bihar and Orissa	67	2,742	9,077	36,31	1,52,99	39,48	2,28,78
Bombay	19	6,535	4,001	36,24	1,93,54	54,83	2,84,61
Burma	12	1,072	992	18,43	28,05	4,75	51,23
Central Provinces*	34	48,848	3,955	48,00	1,77,53	15,92	2,40,55
Delhi	1	66	426	1,50	12,20	1	13,71
Madras	31	3,484	12,923	76,60	3,53,01	1,97,57	6,27,18
N. W. F. P.	1	36	114	21	2,29	92	3,42
Punjab	118	3,472	18,928	63,23	5,75,37	66,88	7,05,48
United Provinces	69	5,498	5,168	35,25	53,76	4,04	93,05
Total	400	77,667	76,553	4,00,60	18,42,76	4,99,05	27,42,41

* The practice in Central Provinces seems to be that the individual members of Central banks are generally members of the primary societies.

V.—Provincial Banks.

—	Members.		In thousands.				
	Individuals.	Societies.	Share Capital and Reserve.	Debentures.	Deposits.	Loans.	Total Working Capital.
			Rs.	Rs.	Rs.	Rs.	Rs.
Ajmer-Merwara	No Provincial Bank in the Area.						
Assam	31	35	99	..	2,37	12	3,48
Bengal	..	168	20,78	..	1,63,25	..	1,84,03
Bihar and Orissa	29	79	9,33	..	63,80	38	73,51
Bombay	808	1,632	18,83	9,80	1,20,51	66	1,49,80
Burma	188	1,648	58,41	..	27,29	..	85,70
Central Provinces	40	2,499	10,48	..	95,99	..	1,06,47
Delhi	No Provincial Bank in the Province.						
Madras	184	58	15,81	2,15	75,87	85,43	1,79,26
N. W. F. P.	No Provincial Bank in the Province.						
Punjab	...	13,008	10,91	5,00	63,13	16,74	95,78
United Provinces	No Provincial Bank in the Province.						
Total	1,280	19,127	1,45,54	16,95	6,12,21	1,03,33	8,78,03

Methods of raising credit.

154. In describing the credit needs of the farmer in Chapter VI, it was pointed out that rural credit fell into two broad categories: (1) short-term and intermediate credit, in which loans were secured mostly on personal guarantee and temporary agricultural wealth, and (2) long-term credit which was based upon the permanent agricultural wealth in the shape of land or buildings. Opinion on co-operative credit has now crystallized round the idea that these two varieties of credit cannot be supplied by the same type of co-operative organization and that two different types of them are indispensable. Almost all the Provincial Committees, and almost every competent authority on co-operative credit in India, are agreed that the existing primary societies, central banks and provincial banks, by reason of the character of their resources and other obvious limitations from a banking point of view, can supply only the short and intermediate credit. They are also agreed that the type of co-operative organization most suited to provide long-term ries: (1) short-term and intermediate credit, in which loans were type of institutions raises credit mainly by deposits and loans, and the second type by debenture issue, the share capital in both cases

being only a small portion of the working capital. We shall deal in this chapter with the first type of institutions,—primary societies, central banks and provincial banks,—and leave the other to the next chapter.

The Primary Societies.

155. The financial structure of co-operative credit is based upon what are popularly known as the primary societies. These societies, which are associations of borrowers and non-borrowers, consist of the residents of a locality who know one another and may naturally be expected to take interest in one another's affairs. This arrangement brings together persons of different status in life into a common economic organization and helps to foster a true spirit of co-operative brotherhood; and we agree with the recommendation of the foreign banking experts that membership of primary societies should not be confined to a special creed, caste or calling or to a certain number of people resident in a locality. The rural credit societies are mostly shaped on what is known as the Raiffeisen model, after Raiffeisen, the famous German Co-operator, whose rural credit system proved a great factor in the economic regeneration of the German farmers. The structure of these societies is simple. Every resident of a village who, in the opinion of his fellow-members, is a person of good character is eligible for membership. The tangible assets of the society consist of the property possessed by all the members thereof, the details of which are required to be entered in a list called the "Property Statement" (Haisiyat) of the society. This is periodically revised, usually once a year, and brought up to date. The careful preparation and revision of this statement is of the utmost importance for the proper working of the society. In some localities members contribute a small share capital and in others they do not. In the Punjab and the United Provinces, the society based on shares has from the first prevailed; to a great extent in Madras and Burma also. In other provinces, the share and non-share societies flourish side by side. We are of the opinion that the encouragement of subscription to share capital by members as a method of collection of savings is to be preferred to a system of compulsory deposits. These societies are expected to raise locally (on the joint liability of the members) capital to be lent out to the members and, whenever necessary, the local capital so raised may be supplemented by small loans from the State, deposits made by friends and sympathisers of the movement who are non-members, and loans obtained from central and provincial banks. We do not recommend under existing conditions that primary societies should make any special effort to attract deposits from non-members by offering high rates of interest, for this would frustrate the aims of

the movement to bring down the general high level of interest rates and to provide the rural co-operators with cheap and controlled credit. Moreover without the aid of an efficient and well-organized Central Banking System which can act as a true balancing centre for primary societies, the latter cannot receive and utilize non-members' deposits without risk and with profit. These societies should, however, serve as savings banks for their members and promote thrift. The liability in the agricultural rural societies is generally unlimited. The urban primary societies which are modelled on Luzzati's People's Banks in Italy and Schulze Delitzsch societies in Germany adopt the principle of limited liability; but otherwise, they follow the essential principles of co-operative credit which characterise the rural societies based on the Raiffeisen model. Certain very definite and rigid principles are laid down in the matter of the grant, utilization and recovery of loans. The most important of them are :—

(1) The maximum borrowing power of the society is fixed on some understandable basis, such as a definite fraction of the net assets of all the members composing it. It varies between $\frac{1}{4}$th to $\frac{1}{8}$th of the value of the net assets in the several parts of India.

(2) No loans should be advanced for an unproductive or wasteful object, and the scrutiny of the purpose of the loan is an important function of the Panchayat or the Managing Committee.

(3) In fixing the individual maximum borrowing power of the members fair latitude is allowed according to their needs. Such maximum bears a definite proportion to the individual assets of the member and does not ordinarily exceed fifty per cent of the value thereof. The purpose of the loan and the repaying capacity of the borrower constitute the important factors, in determining the amount of the loan within the prescribed maximum limit of the borrowing power.

(4) The members should keep mutual watch over one another in regard to putting the loan to beneficial use and in the matter of the timely discharge of the dues to the Society.

(5) The instalments of repayment of the loan should be fixed with due regard to the repaying capacity of the borrower; when the borrower is unable to repay on account of any just cause, like failure of crop, a suitable extension of the period of repayment is made and no undue pressure is brought to bear on the borrower.

(6) The shareholding and the rate of dividend are restricted. The principle of 'one man, one vote' is observed almost universally,

irrespective of the holding of shares. There are also rigid restrictions on the right of the member to transfer or charge his share or interest in the capital of a registered society. Such share or interest is also not liable to attachment or sale by courts or in insolvency proceedings. The liability of a member for the debts of the society continues until the expiry of two years after he ceases to be a member.

(7) The society has a prior claim, subject to that of the Government's dues, over other creditors of the members in the matter of enforcing any outstanding demands due to the society from a member or past member for moneys advanced for agricultural requisites. There is, however, no specific charge nor does the prior claim extend to all advances relating to crop finance. In Bombay, the prior claim under the All-India Act is converted into a *first charge* by the local Act. We do not consider that the present legal provision in Section 19 of the All-India Act giving to the society a prior claim is satisfactory. We recommend that, as in Bombay, the prior claim should be converted into a first charge.

(8) The societies are placed under statutory obligation to build up reserve funds. Section 33 of the Act deals with reserve funds. In non-share societies the entire surplus profit is carried to the indivisible reserve. In share societies also the idea that the reserve fund is one and indivisible is recognised, and no distribution of profits is permitted without a substantial portion being carried to the reserve fund, such portion being not less than 25 per cent of the profits. In Madras, in the case of the unlimited liability societies the rule is that not less than one-half of the profits shall be carried to a reserve fund until that fund is equal to one-half of the total liabilities of the society other than reserve and share capital. The value of the reserve fund as a safeguard against the unlimited liability of the members to make good any probable loss is appreciated and the desire to build up reserve funds is in evidence. These reserve funds are generally invested by primary societies in central co-operative banks. The United Provinces Provincial Banking Enquiry Committee report that in some societies it is the practice to lend money to their members out of the reserve funds and as the members themselves are owners of these funds, it has been possible for 400 societies which have adopted this procedure to reduce their rate of interest. The question whether societies should be permitted to use a portion of the reserve fund as their working capital has arisen from the fact that the Central Banks pay a low rate of interest on the reserve fund to societies while the rate charged on loans is much higher. The Townsend Committee recommended that Central Banks should lend to societies at concessional rate sums up to the extent of the reserve fund in deposit

with them, and that after the reserve fund of a society aggregates to an appreciable percentage of the society's total working capital the excess may be permitted to be used in the society's business. We recommend the former proposal for the consideration of the authorities concerned. In the present stage of the development of the movement it is safer to keep the reserve fund invested in the central banks and not to permit the societies to lend it to their members.

156. In a registered society, unlimited liability, whatever may be its implications in strict legal theory, amounts in co-operative practice merely to the contributions which a liquidator may levy in the process of liquidation; in other words it is an ultimate contributory liability which arises when a society is wound up. It does not mean that any or all the creditors may sue any member for the debt due to them. As explained clearly by Mr. Calvert, the loss in a co-operative society will fall *firstly* on the member, *secondly* on his sureties, *thirdly* on the reserve, *fourthly* on the share capital, *fifthly* on the unlimited liability of the members and *finally* on the creditors of the society.* Experience has shown that the protection to the creditors is ample, and this mainly accounts for the readiness with which the public invest their moneys in co-operative banks. It is true that the unlimited liability does not carry with it an obligation against alienation and that if a member having acknowledged his unlimited liability to his society proceeds to encumber or dispose of his material possessions, the security to depositors will *pro tanto* be diminished. In practice, however, there are many safeguards against recourse to such dishonesty, which entail prompt steps being taken to recover any outstanding loan and to expel the member. It is this liability that subjects members to mutual watch over each member. Mr. Wolff very aptly points out that "Raiffeisen adopted unlimited liability in order that society should stand on no etiquette with candidates, consider well whether such were eligible and unsparingly supervise them".† Co-operators find that with the observance of these precautions, and the restriction of loans to members selected for their honesty, the unlimited liability is of great practical value in raising and dispensing co-operative rural credit, instead of being a danger or a snare. We have, however, no objection to limited liability societies being encouraged in places where the co-operative movement cannot make a great headway under the unlimited liability system.

The Central Banks.

157. The co-operative primary societies in a specified area are federated into a central society which is called a

* "The Law and Principles of Co-operation" by Calvert, page 40.
† "Co-operation in India" by Wolff, page 63.

"Central Bank" or a "Banking Union". Historically speaking, the appellation "Central bank" is used when the central society admits as its members not only primary societies, but also individuals. The phrase "Banking Union" is used when membership is confined to societies only and individual members are excluded. In practice the differentiation is gradually disappearing and individuals are to be found as members in most co-operative banks everywhere. We shall therefore refer to both of these institutions as central banks. These central banking organizations are generally located at headquarters of, or other important towns in, the districts and have on their boards of management some individuals of influence and business capacity, besides representatives of primary societies. They have, therefore, very soon won the confidence of the public and are today a factor to be reckoned with in the Indian money market. We do not recommend the exclusion of individual members from central co-operative banks; but we agree with the Maclagan Committee on Co-operation, that societies' representatives should have a preponderating voice in their management. These banks finance the primary credit societies and also act as balancing centres to them, and as a rule do little commercial banking. Their resources consist of their owned capital (share capital and reserve funds); deposits of various kinds, such as fixed, current, recurring, and prudent; provident and savings deposits; overdrafts and short term loans from the Imperial Bank of India and some joint-stock banks; and loans and advances made by the provincial bank and sometimes by other central co-operative banks. Another source of deposits for central banks is the surplus funds of primary societies affiliated to them, more particularly the contributions to the reserve fund which are required to be separately invested in the central bank. Their position in certain provinces has become so stable that municipalities, local bodies, universities and other *quasi*-public bodies are allowed to deposit their surplus funds with them. The central banks are able to attract capital which at present is ample for the requirements of the movement, and in some provinces they obtain deposits at as low a rate of interest as 4 per cent. In making loans, they observe in the main the principles of co-operative credit which were enumerated in dealing with the primary society. The dividend paid by them is restricted by statutory rules, and does not generally exceed 9 per cent, though in a few provinces it is as high as 12 per cent. By legislation the maximum rate is fixed at 10 per cent in Bombay. As in the case of the limited liability societies, 25 per cent of the central bank's net profits are required to be carried to a reserve fund. These banks are required to maintain adequate fluid resources to meet the depositors' claims, the standard of such resources being fixed by the Registrar; and generally speaking they are expected to follow the rules of prudent banking like commercial banks. In practice the standard is even

more rigid. The banks are required to maintain a fluid resource register showing from day to day the amount of fluid resource required and the amount maintained. The fluid resources are maintained in the shape of (1) cash balances on hand, (2) undrawn cash credit with the Imperial Bank of India and with the provincial co-operative bank and (3) Government promissory notes.

In order to protect the depositors, and to create confidence in the minds of the public and of the commercial banks that have dealings with Co-operative banks, it has been suggested that the limited liability of shareholders in central banks should be coupled with a reserve liability of about 5 to 10 times the share capital. Though we agree that the reserve liability may be permissible in the case of shares held by societies, we do not approve of the suggestion in so far as it applies to individuals who are members. Even in the case of societies, we consider that such reserve liability should be restricted to the face value of the shares and not to some multiple of it. We would in this connection invite a reference to paragraphs 121 and 122 of the Maclagan Committee's report which support our conclusion.

In order to provide against losses which may arise from part of the funds invested in primary societies proving ultimately irrecoverable, we recommend that central banks should start a bad debt fund, carrying a reasonable amount of the profits to that fund, in addition to the statutory allocation to reserve funds. We are aware that the reserve fund itself is intended to meet irrecoverable losses. But in our opinion this arrangement is not a sufficient protection to creditors. In the first place, the reserve fund in *practice* is not drawn upon to recoup losses until the bank is put into liquidation. In the next place, the temptation to pay dividends on shares at the maximum rates allowed even in years when there is a depreciation of assets by the deterioration of debtor societies can only be checked by carrying over an adequate portion of the profits to a bad debt fund. The question of dividend does not arise at the time when the statutory allocation is made to the reserve fund.

The Provincial Banks.

158. The central co-operative banks in all the Governors' provinces in India with the exception of the United Provinces of Agra and Oudh have in their turn federated themselves into higher central societies called apex banks or provincial banks. The United Provinces Committee have recommended the establishment of a provincial bank for the province, a recommendation which we strongly support. One Indian State at least (Mysore) has an organization approximating to a provincial bank. These provincial banks are able to attract the capital required for

the movement by means of deposits at fairly cheap rates of interest. The provincial banks act as financing agencies and balancing centres to the central banks. They derive their funds much in the same way as the central banks do. Many of them enjoy cash credit and over-draft arrangements with the Imperial Bank of India and in certain provinces with other joint-stock banks. They also get short-term money and call-money from many commercial banks. Some provincial banks are known to lend their surplus funds to other provincial banks. The Indian Provincial Co-operative Banks' Association co-ordinates the activities of the various provincial banks and supplies them with information about the financial requirements of the banks. In short, money flows from the provincial bank to the central bank and from the central bank to the rural societies and from them to the individual borrowers. The underlying idea of this financial distributory system is that the resources of the society should be made available to thousands of small cultivators who need accommodation "thinning out the stream of the water collected," as Mr. Wolff figuratively puts it "sending it in rills over a broad surface, so that irrigation may be perfect and reaching every root to be watered."* The question whether the structure should not be completed by an All-India Co-operative Bank at its apex has often been considered, but we think that when the Reserve Bank is established, the need for an apex bank for the provincial banks will no longer be felt, as the provincial banks will then be provided by the Reserve Bank with all the financial facilities required by them. At any rate we see no need for an apex bank for the present.

159. It has been suggested that as the failure of a provincial bank might very seriously affect, if not destroy, the whole co-operative movement in the province, it is desirable to transform the existing institutions into special registered institutions with part of the share capital subscribed by the Provincial Governments. We are not in favour of such transformation. We recommend that provincial banks should continue to be bodies incorporated under the Co-operative Societies' Act. Provincial banks are best suited for linking up the co-operative credit organization with the general money market and commercial banks, and should be managed on ordinary business principles with due regard to the special requirements of co-operation. These banks should not deal directly with primary credit societies and should consolidate and strengthen their position as financing agencies and balancing centres for the central banks. We consider it desirable that the executive head of a provincial bank should be a thoroughly trained banker with competent knowledge of the principles and practice of co-operative credit.

* "Co-operation in India" by Wolff, page 134.

160. This credit structure of co-operative organization is further buttressed by certain forms of statutory control vested in the Registrar, the most important of which is compulsory audit. The Act lays down that the Registrar shall audit or cause to be audited by some person authorized by him, by general or special order in writing, in this behalf, the accounts of every registered society once at least every year; and that the audit shall include an examination of overdue debts if any, and a valuation of the assets and liabilities of the society. The audit is, therefore, not a mere examination of books and preparation of balance sheets. The full implications of this statutory definition of co-operative audit have been expounded at length by the Maclagan Committee in paragraphs 91 to 93 of their report. We reproduce paragraph 91:

> "91. The terms of the Act expressly require that the audit shall include an examination of overdue debts and a valuation of assets and liabilities. By this latter we understand not merely the preparation of the balance sheets of societies but also a sufficient check, in accordance with such rules as the Registrar may lay down, of the list of the material assets of the members. The audit should, in our opinion, extend somewhat beyond the bare requirements of the Act, and *should embrace an enquiry into all the circumstances which determine the general position of a society.* It would for instance be the duty of the auditor to notice any instances in which the Act, Rules, or By-laws have been infringed; to verify the cash balance and certify the correctness of the accounts; to ascertain that loans are made fairly, for proper periods and objects, and on adequate security; to examine repayments in order to check book adjustments or improper extensions; and generally to see that the society is working on sound lines and that the Committee, the officers, and the ordinary members, understand their duties and responsibilities."

All-India Co-operative organizations.

161. To complete the picture we must refer to the Indian Provincial Co-operative Banks' Association and the All-India Co-operative Institutes' Association. The former Association, which comprises all provincial banks in its membership, has for its object, among other things, the furtherance of common interests, especially in matters of finance, legislation and administration. The main object of the latter is to promote and extend co-operation through the member institutes and to furnish advice and assistance to member institutes on all co-operative questions. We understand that the present Co-operative Societies Act does not provide for

the registration of societies of an all-India character like those mentioned above or societies operating over more than one province. We recommend that the Act should be amended to provide for such registration. If this is done and the working of the two institutions strengthened so as to make them serve as co-ordinating agencies in the matter of finance and research, we think that it will not be necessary to set up another all-India body, *e.g.*, an all-India Co-operative Council with administrative or controlling functions as suggested by the foreign banking experts.

162. It will be seen from the preceding paragraphs that the soundness and stability of the co-operative structure described therein depends on the observance of the principles and practice of co-operative credit mentioned above, with a realisation that co-operation is an organization or method of doing business, on the efficiency of the statutory audit, and on effective internal supervision.

NATURE AND PURPOSES OF ADVANCES.

163. The rural co-operative societies which are worked on the basis of mutual guarantee and on unlimited liability are now generally employed as agencies for granting short and intermediate credit to agriculturists. This form of credit is dispensed on personal guarantee and on suretyship. Mortgage security is also taken and in some provincial areas like the southern districts of the Madras Presidency loans on mortgage of immovable property constitute a considerable portion of the total outstandings. The Bihar and Orissa Committee report that the central banks and the rural credit societies in the province have generally adopted in the last few years the plan of taking collateral security in the case of loans above Rs. 200 with the principal object of preventing a borrower from mortgaging his property to a money-lender. Many Provincial Committees are of opinion that mortgage loans for long periods are unsuitable business for the rural credit societies. The evidence of the representatives of the Indian Provincial Co-operatvie Banks' Association and of the provincial banks was much to the same effect. The reasons for this view are: (1) the overshadowing of personal credit by mortgage may entail a neglect of co-operative principles, (2) the deposits of co-operative societies including central and provincial banks are for short periods and it is unsound finance to utilise them for long-term loans, (3) the enquiry and the valuation preliminary to the grant of long-term loans have to be entrusted to a trained agency controlled by and responsible to some central organization, (4) the maintenance of valuable documents and title deeds cannot be entrusted to ordinary village societies and (5) when defaults occur in the repayment of mortgage loans, the assets of the society

become frozen and the obtaining and execution of mortgage decrees for the recovery of overdue loans becomes an extremely difficult operation.

FACILITIES GIVEN BY CO-OPERATIVE SOCIETIES FOR DISCHARGING OLD DEBTS.

164. By far the most important question connected with the nature of the advances relates to facilities given by co-operative societies for the discharge of prior debts. The co-operative credit movement in a way owes its origin to the belief that the natural development of the progress of the movement will be the eradication of the evil of usury and the lightening of the burden of rural indebtedness. While the evidence available to us tends to show that rates of interest have come down wherever the co-operative credit movement has been successful, there is very little evidence about the reduction of total indebtedness through the agency of co operative credit societies. Indeed the study of Provincial Reports leads to the irresistible conclusion that the primary societies, central banks and provincial banks are not in a position to finance the agriculturists adequately for the discharge of old debts. The following is a summary of the position as brought out in the reports of the Provincial Committees :—

(i) *Assam.*—Rural societies give loans for clearing off debts but the practice of long-term loans from short-term deposits is not commended.

(ii) *Bengal.*—Most of the central co-operative banks in Bengal grant loans to rural societies for repayment of old debts for three years only. A few extend the period to five years and one bank only grants loans for as long a period as ten years. There is in all no effective check against the purpose of the loans.

(iii) *Bihar and Orissa.*—Co-operative societies give loans for discharging debt, but the period of redemption in the case of these long-term loans has been fixed under instructions from the Registrar of Co-operative Societies at a period from two to ten years according to circumstances. The limit for the grant of long-term loans has also been stated as the total of the central bank's paid up share capital, its own reserve, the primary societies' reserves excluding the portion held as shares in the central bank and 25 per cent of the central bank's deposits. The Bihar and Orissa Committee have recommended that the period of repayment should never be less than five years in such cases and might well be extended to 15 years, and that it would be desirable to arrange equated payments so as to cover both principal and interest and to let the loans run through the first one or two years without any repayment whatever. The Committee have great doubts

whether co-operation will ever supply a complete solution by itself even after these recommendations are carried out.

An experiment to redeem debt was made in the Ranchi district from 1906 to 1912, confined to the more substantial cultivators among the *Mundas* (an aboriginal tribe). It is referred to in paragraph 111 of the Bihar and Orissa Report, wherein it is stated that the experiment was generally accepted to be a failure. The Committee have, however, added that they have had no definite information on the period fixed for individual cases of repayment, and that it is impossible to say whether the credit given was sufficiently long to enable a reasonably thrifty cultivator to repay out of the profits of his holding, including the land redeemed. The experience gathered in the course of the Committee's enquiry has demonstrated that most cultivators have to borrow to some extent for seasonal needs, and as long as that borrowing is extremely expensive the margin for the repayment of debt is greatly restricted.

(iv) *Bombay.*—The village co-operative societies in Bombay advance loans up to Rs. 750 to their members for redemption of debt, but the Registrar can increase the limit. Some co-operative societies have worked out schemes for redemption of their members' debt and have been advancing loans for this purpose from funds borrowed from central banks. Not much progress has, however, been made as the funds at their disposal are short-term funds.

(v) *Burma.*—Co-operative credit societies, ostensibly lending only up to four years and chiefly for crop-loans, have often in the past lent where there was no prospect of repayment in four years or less, so that really they were giving long-term loans; a considerable amount has been lent on these conditions and is now irrecoverable, and accordingly such loans are no longer given. The question of restriction of loans by primary societies to crop-loans was considered by the Calvert Committee. Government came to the conclusion that co-operative credit need not be restricted to crop-loans. They have, however, directed that crop-loans should be regarded as the principal business of primary agricultural societies and that, while loans for two or three years should continue to be provided, great care should be exercised in the grant of these loans.

(vi) *Central Provinces.*—Attempts have been made to discharge prior debts by advances through the primary societies. This has resulted in the majority of cases in accumulation of overdues. The amortisation of old debts was in any case beyond the capacity of the financial machinery of the co-operative credit movement. It has now been generally recognized that the central banks cannot

devote more than a very small percentage of their working capital to long-term business. The Committee have recommended that long-term loans for repayment of previous debts should be made by the land mortgage bank proposed by them.

(vii) *Madras.*—Loans can be had from co-operative societies at 9¾ per cent. to be repaid within five years.

(viii) *The Punjab.*—The only credit agency with a declared object of granting loans for the discharge of old debts, is the co-operative mortgage bank, which has so far advanced only about Rs. 15 lakhs for this purpose. The efforts of the ordinary primary societies in this respect have been sporadic and usually insufficiently controlled. Though there has been little concerted effort, every year large sums are advanced in the ordinary course of business for the repayment of old debts. The Committee add that last year Rs. 50 lakhs were lent in this way and the experience of a large number of primary societies of ten years' standing showed that a very large number of their members were found to be free from debt. The Committee recommend that the Registrar should consider the possibility of further experiments on more cautious lines than hitherto followed. They, therefore, suggest that the operations should be restricted to A and B class* societies, that the period of loan should not exceed 5 years, and that experiments should not be made where there is a mortgage bank, as the Committee feel that a mortgage bank is more fitted than a village society to make advances of this kind.

165. We have carefully considered the question whether the ordinary credit societies are a suitable agency for supplying long-term credit to the agriculturists and we have come to the conclusion that in the interests of both the movement and the borrowers these institutions should confine themselves to dispensing short and intermediate credit the nature of which we have already described. Long-term credit can be provided with any degree of safety and success only by land mortgage banks, and these we deal with in the next chapter. The absence of such a rational system of rural finance has seriously interfered with the successful working of co-operative credit societies in some cases.

Rates of Interest.

166. We may now proceed to summarize the rates of interest charged ultimately to the cultivator by the primary societies and in order to judge whether these rates are reasonable, we have to

* Societies in the Punjab are divided into four classes, A, B, C and D, of which A and B are efficient financially and more or less fully co-operative, C in varying stages of tutelage, and D in various stages of decay (Punjab Report, para. 149).

look also into their borrowing rates. The following table gives the information in a consolidated form :—

Rates of interest.

—	Rate charged to cultivators by Primary Societies.	Primary Societies.		Central Banks.		Provincial Banks.	
		Rate paid on Deposits.	Rate paid to Central Banks on loans.	Rate paid on Deposits.	Rate paid to Provincial Bank on loans.	Rate paid on Deposits.	Rate on accommodation from Imperial Bank.
	%	%	%	%	%	%	%
Ajmer-Merwara .	Generally, 9 to 12	4 to 8	6 to 9	1½ to 7½	...	...	...
Assam . . .	15½ or 18½ (Generally 12½ in the case of old Societies in the Assam Valley).	8	11	8	8½	7½	7
Bengal . . .	7½ to 15½	4 1/16 to 9½	9½ to 12½	2 to 8½	7 to 8	4 to 6½	Bank rate.
Bihar and Orissa .	12½ to 15½	7 to 9	10½ to 12½	4½ to 6	6	2 to 5	Bank rate.
Bombay . .	9½ to 12½	2 to 8	6 to 8	1½ to 7½	5½ to 8	2 to 4½	No accommodation is available at present.
Burma . . .	15	6 to 12	10	6 to 9	10	5 to 7½	...
Central Provinces .	Generally 12	3 to 10	9 to 10	3 to 7	6 to 6½	2 to 5½	7
Delhi . . .		6 to 7	8 to 9	4 to 6½	...	...	...
Madras . .	9⅜ to 10 1/16	3 to 6½	7½ to 8	2 to 5½	6 to 6½	2 to 4½	6½ (overdrafts).
North West Frontier Province.		6 to 7	8	4½ to 7½	...	...	...
Punjab . .	9½ to 12½	6 to 7	8 to 9	5 to 6½	6½	3½ to 5½	Bank rate.
United Provinces .	15	9	12	6 to 7	...	...	...

THE SERVICE TO THE AGRICULTURIST.

167. The working of the co-operative movement and its present capacity and future potentialities to meet the credit needs of the agriculturists have been the subject of several important enquiries, both of an all-India and provincial character. Soon after the passing of the Co-operative Societies' Act II of 1912, the Government of India set up a Committee presided over by Sir Edward Maclagan, and the report of that Committee which was published in 1915 is still a classic on the subject of co-operation in India. Recently the Royal Commission on Agriculture made a fairly comprehensive survey of the movement and made useful recommendations. As already mentioned four provinces have also appointed their own committees of enquiry to examine the progress made by the

movement in those provinces and to report on the existing conditions and future lines of development. These are the United Provinces of Agra and Oudh, the Central Provinces, Madras and Burma. The several Provincial Banking Enquiry Committees have brought under review the recommendations of most of these committees and as far as the information was available, also indicated the action taken by the official and non-official agencies on those recommendations. The Royal Commission on Agriculture have summarized the results of the working of the movement in these words :—"The main results achieved may be said to be the provision of a large amount of capital at reasonable rates of interest and the organization of a system of rural credit which, carefully fostered, may yet relieve the cultivator of that burden of usury which he has borne so patiently throughout the ages. Knowledge of the co-operative system is now widespread; thrift is being encouraged; training in the handling of money and in elementary banking principles is being given. Where the co-operative movement is strongly established, there has been a general lowering of the rate of interest charged by money-lenders; the hold of the money-lender has been loosened, with the result that a marked change has been brought about in the outlook of the people". The Royal Commission's faith in the potentialities of the movement is expressed in these words :—"The greatest hope of the salvation of the rural classes from their crushing burden of debt rests in the growth and spread of a healthy and well-organised co-operative movement based on the careful education and systematic training of the villagers themselves". They proceed to say that if co-operation fails the hope of the agriculturist also fails. On a consideration of the good and the weak points of the working of the co-operative organization, the Royal Commission came to the conclusion that "The financial solvency of the movement is beyond dispute; it is the working of the societies that is defective". The reports received from the Provincial Committees do not show that the financial position of the primary societies has deteriorated in any way since the Royal Commission reported. On the other hand in almost all provinces it is reported that the rapidity of expansion of the movement has been suspended with a view to consolidate and rectify the progress already made, to speed up recoveries, to reduce overdues and to otherwise strengthen the financial soundness and stability of the primary and the central societies.

168. In order to popularize the co-operative movement in the country and to promote a sense of responsibility among the members of the society, it is important that the official control that now exists in certain provinces should be slackened. For example, the fixing of the limits of the borrowing powers of the societies and of

their members and the policy regarding the grant of the loans should be left to the central and provincial banks. We should like to quote in this connection the following extract from the resolution of the Government of Burma on the report of the Calvert Committee :—

> "It is clearly necessary that Government should take precautions about the effectiveness of which there can be no doubt against any recurrence of such entanglement on their part in the financial liabilities of co-operative institutions. They desire to lay it down clearly therefore that the primary functions of the Co-operative Department are education (Recommendation 4) supervision, (Recommendation 16) and control of audit to the extent stated in Recommendation 26. They entirely agree with the principle stated by the Committee in paragraph 64 that the financing agencies must be entirely responsible for loans, deposits and internal working. A more controversial point is raised when the Committee proceed to recommend that the Co-operative staff should attempt to advise the financing body whether the maximum normal credit limit of a society is reasonable or not in view of rural conditions and that applications for loans other than crop loans should be submitted through the Junior Assistant Registrar. The suggestion of course is that though the responsibility for granting a loan must rest entirely with the financing agency, the advice of the Co-operative staff should be at the disposal of the financing agency. As at present advised, however, though they have not yet arrived at a final conclusion, the Government are disposed to feel that even the giving of official advice as to the granting of loans would weaken the Bank's sense of responsibility and might end in placing the Department in much the same relation to the financing agency as that in which it was involved in the case of the Provincial Bank, and provisionally they are of opinion that Recommendations 55 and 56 should not be accepted."

169. In judging the extent and value of the services of the movement to the agriculturist, the two obvious tests that suggest themselves are : (1) the proportion of the population whose needs are attended to by the co-operative credit agency, and (2) the proportion of the finance required for agriculture which the co-operative movement provides. With reference to the first, the percentage of the population touched by the movement in each province has already been set forth. Regarding the proportion of the

rural finance provided by the movement, the survey is not complete, but some of the provincial committees give a rough idea of the position. For instance, the Bombay Committee have estimated the financial requirements of the agriculturist in their province for the current needs of agriculture at about Rs. 32½ crores. Out of this, about Rs. 220 lakhs only are said to have been provided in a year by co-operative organisations. The co-operative movement therefore provides about 7 per cent. of the finance required for current agricultural needs in Bombay. The Madras Committee have made no such general estimate for that province but have given certain data from which an estimate can be arrived at. In estimating the total indebtedness of the province at Rs. 150 crores, they point out that about Rs. 70 crores of it represent debt which continues from year to year, i.e., debt contracted for the agricultural needs and domestic expenses of the cultivator which is repaid out of the annual harvest. The share of this sum of Rs. 70 crores which is provided by the co-operative movement can be gauged from certain figures which they have given for one district, *viz.*, Tanjore. The cost of cultivating one crop of paddy in the wet delta area of the district is estimated at Rs. 3½ crores. Out of this only Rs. 17½ lakhs are said to be advanced by the Co-operative Credit Societies. The Punjab Committee have made more intensive enquiries into the matter. They estimate the current needs of the agriculturist to finance cultivation as well as cultivators at 52 to 65 crores and point out that only a small fraction of it is supplied by Co-operative Societies and that the bulk of it is still borrowed from money-lenders. These figures are enough to show that the credit facilities now provided by the co-operative movement to agriculturists cover but a very small proportion of their needs.

Defects in existing system.

170. It is not, however, denied that there are several defects in the working of the movement, some of them of a grave nature. The Managing Governor of the Imperial Bank who offered the severest criticism said that, in his opinion, the business of the co-operative movement as a whole could not be considered to have been conducted in a satisfactory manner. According to him: "The fundamental principle of true co-operation is lacking. Overdues are highly excessive. Audit is defective. Control is inefficient". The Royal Commission on Agriculture, which as already stated took stock of the situation as recently as 1928, also pointed out that the "members of societies delay payment even when able to repay; understanding of the principles of co-operation and knowledge of the essentials of rural credit are lacking; office holders refrain from taking action against defaulters and the spirit of self-help is not as prominent as it should be, if the movement is to

be a live force in the village. Even where defects are obvious and admitted, there is reluctance, as dangerous as it is regrettable, to liquidate societies whose condition is beyond remedy''. The Provincial Committees substantially endorse these observations, and these defects are more or less common to the working of the societies in all provinces. The feature of overdues and its evil effects are specially emphasized by the Provincial Committees and the figures for overdues are given by almost all Committees. We strongly emphasize the need for carefully scrutinising the economic purpose of the loan and the repaying capacity of the borrower, in dispensing co-operative loans. Extensions for repayment should be given only in circumstances of exceptional difficulty and any tenderness in dealing with defaulting members should be avoided. At the same time, we desire to emphasize that repayments of loans should not be restricted to the same period for all debtors, but should be fixed according to the special needs of individual borrowers.

171. It will be seen from these tables that the chief activity of the co-operative movement has so far been the establishment of credit societies, these being the simplest to be formed and to be managed and supervised. The time has now come to break new ground in the larger economic interests of the mass of agriculturists. We are of opinion that provincial Registrars should encourage the development of non-credit societies and register them when properly organized. The Royal Commission on Agriculture have pointed out the need for the application of the co-operative principle in other directions and for educating the people to accept the teaching of the agricultural and veterinary experts and preparing the ground for the adoption of the experts' advice; for example, if societies for joint cultivation be started under capable guidance, a great deal of the cost of cultivation can be cut down and there will be a greater possibility of the smaller agriculturist enjoying the benefits of any improved marketing facilities. Such societies require continuous efforts and in order to ensure their success and to propagate the idea it is necessary that the efforts should, at the outset, be concentrated in selected places and the improvements effected patiently and continuously watched. Again, societies which provide manure and seeds or other agricultural requirements should in the same way be encouraged, especially as the staff of the agricultural departments could not make any substantial advance in these directions by their own unaided efforts alone. Similarly the provision of implements on hire or on a system of hire-purchase offers another useful line of development. The great scope for processing societies in rural areas also requires mention. Rice-hulling, cotton-ginning, peeling of grains, preparing milk products and the like are various methods in which the agriculturist can be helped and his outlook widened. Co-operative societies in

Bombay and Madras have already taken to processing with advantage and we recommend strongly that the non-official leaders of the movement and the officials of the Co-operative Department should make special efforts in promoting societies of such special types. We have dealt with co-operative sale societies and artisans' societies in later chapters.

AUDIT.

172. As regards audit, in Burma where the Calvert Committee on Co-operation submitted their report after the Royal Commission had reported, the position is shown to be very unsatisfactory. There is evidence before us to the effect that audit in most places elsewhere than in Burma is also defective and does not conform to the statutory requirements as explained and amplified by the Maclagan Committee.

173. It is of the greatest importance to have an efficient and thorough audit in order to prevent bad management and embezzlement and to inspire confidence of the investing public. The existing arrangements vary from province to province and are said to be unsatisfactory in most provinces. We draw attention to the fact that under the Act audit should include an examination of overdue debts and a valuation of the assets and liabilities of the societies, which indicates that more than a mechanical audit is required. Audit, supervision and inspection of societies which are closely allied functions are now vested in two and sometimes three different agencies, resulting in much overlapping of work and waste of effort and money. After a full consideration of these points, and of the efficiency of the auditing system in European countries like Germany and Austria, we recommend that for the due discharge of the statutory functions of audit special district unions should be formed to carry out audit, supervision and inspection of the societies. The district need not necessarily be an administrative (revenue) district, but it may be an area with a conveniently manageable number of societies which can be affiliated to the District Union. These Unions must be registered under the Co-operative Societies' Act and formed of the co-operative societies (primary, central, credit and non-credit) in the area of the district union. The representation of societies would ensure local touch and non-official initiative and enterprise. The registration may be withdrawn in case the Union does not discharge its duties properly. The staff employed by the Union shall be recruited from persons certified or licensed by the Registrar and the licence of any employee shall be liable to be withdrawn by the Registrar for sufficient cause. There must, however, be no interference by the Registrar in the internal management of such a Union. There may be specially trained Government officials on

the Board of these Unions, which shall consist otherwise of the representatives of the affiliated societies, and Government officials may also be deputed to serve on their staff. The staff of these Unions should however be employed and paid for by the Unions. Besides audit, supervision and inspection of the affiliated societies, these Unions should also provide practical training to candidates for recruitment to the audit, supervision and inspection staff of the co-operative movement. The general work of co-operative education and propaganda, organization of co-operative societies and expanding the movement should be done by the Provincial Co-operative Institutes. The staff of co-operative organizations should consist of men thoroughly trained from bottom to top. It should be a rule that no auditor, supervisor, inspector or a higher officer of a Union shall be employed without having passed the prescribed tests and through a prescribed apprenticeship. There should be close connection between the auditing union and the central banks concerned, by interchange of important reports and statements on primary societies, leaving the central banks to make such arrangements only for inspection as may be necessary to safeguard their financial interests, such inspection being not only the responsibility but also the duty of the central banks.

The District Unions may be federated into a separate provincial (Apex) Union or may be affiliated to the existing Provincial Co-operative Institutes as a special branch thereof according to local conditions. In the Punjab and in Bihar and Orissa the Provincial Institute employs all the audit staff which works under Governmental control. The staff of the Apex Union or the audit branch of the Provincial Institute shall be non-official employees of the Union or Institute. The licensing of the staff by the Registrar shall be on the same lines as for the District Union. The District Unions and the Provincial Co-operative Bank shall be represented on the management.

The main tasks of the Provincial Union or the Audit branch of the Provincial Institute shall be (*a*) supervision of district Unions, (*b*) audit of central banks and other central associations and (*c*) audit of provincial bank, provincial institute and other provincial co-operative organizations such as the Provincial Land Mortgage Corporation.

The expenses of audit of district Unions and of the provincial Union or audit branch of the Provincial Institute shall be met from the contributions of the affiliated societies (primary and central) and subsidies from the Government, which should be pooled to form the resources of the provincial Union or Audit branch of the Provincial Institute.

Other Defects.

174. One of the weaknesses of co-operative finance is said to consist in its inelasticity, dilatoriness and inadequacy. Almost all the Provincial Committees have adverted to this weakness in the organization and more or less admit its prevalence. One result is that the cultivator who is a member of a credit society has to resort frequently to the money-lender as well for accommodation. Another result is that a habit has grown up among societies of taking up as much as they can from the central banks once a year and giving out the money to their members in a lump sum in the hope that it may last during the whole year, without putting the member to the inconvenience of applying in instalments as need arises, for compliance with such applications is not forthcoming promptly in many areas. The money received in a lump sum is spent as soon as received, and when other needs arise, money is again borrowed at exorbitant rates from any other credit agency available. To a certain extent, it must be conceded that the co-operative system cannot be made as elastic as the money-lenders' as certain formalities have necessarily to be observed; but it has also been admitted by Provincial Committees that the system of working should not be rigid and should be such as can be understood and followed without difficulty by a population not very conversant with business practice. The remedy that is suggested by more than one Committee, and with which we agree, is the introduction of the normal credit system in the societies. This system requires a society to fix the credit limit of each member in advance of the season and to make arrangements for securing the necessary finance in time. The amount so sanctioned will be at the disposal of the society, and members will be at liberty to draw as and when necessity arises, interest being chargeable on the loan only from the time the money is actually drawn. Applications for crop-finance can be made and sanctioned in advance. The supervising and inspecting authorities should see that these credits are fixed by the societies at the proper time and sanctioned by the banks without delay. This practice is gaining currency in Bombay and Madras. Granting credits on current account and cheque transactions should also be introduced wherever possible. This would to some extent obviate the evils which arise from agriculturists not being able to get promptly the finance required by them. The very limited extent to which the co-operative societies can afford financial facilities for discharge of prior debts, the most insistent of the purposes for which loans are required, has already been stated. This incapacity of the existing organizations is inherent in their constitution and the nature of their resources. Long-term credit cannot be forthcoming until land mortgage banks are greatly multiplied and it will take some considerable

time before this can be done. The present difficulties, it must be pointed out, are said to be also due not infrequently to the inefficiency or selfishness of many a managing committee and to a lack of understanding of co-operative principles by the bulk of the members.

175. One of the main requisites of agricultural credit is that it should not be too costly. From the tabular statement given in paragraph 166 it will be seen that credit provided by the co-operative organization is still much too dear for the cultivator in some provinces. This is to a certain extent inevitable, for two or three intermediate agencies, each requiring separate margins of working, have to be interposed between the ultimate borrower seeking credit and the original lender or depositor seeking investment; the primary society, the central bank and the provincial bank have each to absorb a portion of the difference between the rate of interest at which money is attracted into the movement and that at which it is lent out to the ultimate borrower. Under ideal conditions, the rural credit societies are expected to attract locally all the capital needed for the requirements of the members, preferably from members' deposits out of their savings by the practice of thrift. But these ideal conditions are not to be found anywhere. It may be admitted that conditions in India fall short of the ideal to a much greater degree than elsewhere. Hence the greater necessity for secondary bodies like the central and provincial banks to attract comparatively cheap money from urban areas and to act as financing agencies and balancing centres to the primaries. The secondary agencies which are themselves constituted on co-operative basis are now found indispensable in every province, for it would be impossible for the agriculturist to get loans even at the present rate of interest without the help of these intermediary organizations. The point is forcibly illustrated by the tendencies noticed in the United Provinces and in Bombay. In the United Provinces where there is no provincial bank at present, thereby reducing the intermediaries, by at least one agency, the need for the establishment of a provincial bank has been emphasized by the provincial Committee. On the other hand, in Bombay where the idea that the intermediate agency of the central bank may be partially dispensed with and the cost of running the credit organization reduced was tried, the later tendency has been to reinstate and strengthen the central bank. The Bombay Committee recommend the conversion of branches of the provincial bank into independent banking unions, provided that the banking union with the assistance of the provincial bank should be in a position to give the same facilities to the constituent societies as are obtained by them at present and that two-thirds of the societies in the area should agree to the conversion. The Bengal Committee disapprove

of the idea of the central banks being branches of the provincial bank.

176. Various suggestions which have been made for a further reduction in the present rates of interest are :

(1) Punctual repayment of loans by the members of the society and effective reduction of overdues, thereby making the central and apex banks financially sounder and consequently able to get money at cheaper rates.

(2) Reduction of the working expenses of central banks in some provinces where they are now unduly high. While for instance in the Punjab their working expenses in 1928-29 were less than ½ a per cent. of their working capital, in Bihar and Orissa on the other hand, the percentage was as high as 2·37.

(3) Borrowing by central banks at cheaper rates for short terms and utilization of urban slack money.

(4) Establishment of more intimate relations between the provincial banks and the central banks so that the latter may follow the lead of the provincial banks in the matter of the regulation of their deposit rates. The provincial banks must be vested with certain powers of control and supervision over the central banks, of course with the willing consent of the latter and with due safeguards for ensuring a predominant voice to the central banks in the management of the affairs of the provincial bank.

(5) A direct tapping of savings by rural societies wherever it is possible.

We commend these suggestions to the Provincial Governments and the non-official co-operators for careful consideration. We consider that if a rural society charges its members a rate higher than 12 per cent. per annum, it should form the subject of careful enquiry by the Provincial Government and the provincial bank concerned and steps should be taken to reduce the rate of interest.

177. It has already been pointed out that the assets of the majority of agriculturists are not such as would be accepted as suitable security for financial accommodation by joint-stock banks. The co-operative organization aims at overcoming this difficulty by converting the honesty and thrift of the agriculturist into an eligible asset on which he can raise credit. In order that the system should work properly, it is essential that a co-operative society should eliminate all differences in the status of the members and avoid the danger of the control becoming concentrated in the hands of some powerful interests, a tendency which is

noticed in some places and commented on by some of the provincial committees. The emergence of these phenomena in the working of the central banks necessarily leads to undesirable results such as the over-financing of societies to keep up dividends, the maintenance of high interest on deposits and the receipt of superfluous deposits with a view to providing remunerative and safe investments to the controlling interests, and interference in the working of the primary societies in the matter of sanctioning loans. The same phenomena in the primary societies tend to the interests of the small producer being neglected in favour of his more powerful colleagues. The co-operative organization provides a most convenient and cheap method of raising finance for agriculture only so long as the members of the organization appreciate the principles and meaning of co-operation and realize the value of their practical application to the daily needs of their life.

178. Besides the defects mentioned above as being more of less common features of the movement, the various Provincial Committees specify several defects as being more pronounced in their provinces.

(i) *Assam*—

(1) Inadequacy and want of trained staff and honorary workers and want of banking knowledge among directors.

(2) Frequency of benami loans and defalcations in societies.

(3) Inadequate provision for fluid resources.

(4) Co-operative stores allowing purchase on credit largely instead of insisting on cash payments.

(5) Indiscreet extensions of loans.

(ii) *Bengal*—

(1) Lack of training of the official staff.

(2) Paucity of the inspecting and auditing officers.

(3) Tendency to make central banks too small.

(iii) *Bihar and Orissa*—

(1) Preponderance of middle-class urban element in the direction of policy.

(2) Mixing up of short and long term finance in the central banks.

(3) High rates of interest charged to ultimate borrowers.

(iv) *Bombay*—

(1) Careful selection of members not universal.

(2) Short, intermediate and long term loans not clearly distinguished.

(v) *Burma*—

(1) Excessive tenderness in dealing with members and societies that did not repay loans.
(2) Failure to observe fundamental banking principles.
(3) Failure to train the staff.
(4) General delay in liquidation of bad societies.
(5) Insufficient connection with the commercial banking system of the country.

(vi) *Central Areas*—

(1) Feeling of irresponsibility among its officials and managing bodies of central co-operative banks for anything that goes wrong.
(2) Selection of dishonest and highly indebted members.
(3) Selection of selfish, partial and irresponsible members of the managing committees.
(4) Lavish borrowing by committee members.
(5) Inadequacy of co-operative staff and absence of honorary workers.

(vii) *Central Provinces*—

Recklessness in advancing money.

(viii) *Madras*—

(1) The knowledge of banking in the staff and the directors generally inadequate.
(2) Tendency to mix up philanthropy, business and politics.

(ix) *The Punjab*—

(1) The inefficiency and selfishness of many managing committees and the consequent delays in making loans.
(2) Borrowing more than necessary.

(x) *United Provinces*—

(1) Accounts not accurately maintained.
(2) The inclusion of zemindars and money-lenders in the societies, disturbing the feeling of equality of status.
(3) Absence of a provincial bank.

179. We agree that the co-operative movement is now suffering from lack of training on the part of both the official and the non-official co-operative staff and we recommend that special steps should be taken for their efficient and adequate training. We further suggest that endeavours should be made to get trained secretaries for the societies. The experience of other countries employing in that capacity school masters and retired officials residing in villages has been very satisfactory.

With a view to avoid the evils of bad management in the rural societies, it has been suggested to us that a special supervising board should be created in these societies in addition to the managing committee or *panchayat*, and that personal responsibility should be fixed on the members of the managing committee in regard to the grant and recovery of loans. We have carefully considered this suggestion and we do not approve of it. We are, however, prepared to agree that if the *panchayat* of a society should advance loans in excess of the limits prescribed by the by-laws of the society or otherwise, they should be held personally liable as guarantors of the loan and the rules under the Act should, if necessary, be amended accordingly.

We further recommend that generally speaking central banks should operate over fairly large areas with a good number of societies affiliated to them, and should not be too small. The management of a central bank should be in accordance with businesslike and co-operative principles. Full-time secretaries or managers of the best character well trained in banking and co-operation are essential.

RELATIONS BETWEEN CO-OPERATIVE BANKS AND IMPERIAL BANK OF INDIA AND OTHER JOINT-STOCK BANKS.

180. The various provincial banks and central banks have cash credit and overdraft arrangements with the Imperial Bank of India as shown below :—

(i) *Bihar and Orissa.*—The Provincial Bank has two cash credit accounts at bank rate (one for Rs. 4 lakhs against pro-notes of the provincial bank guaranteed by the guarantee shareholders and another for Rs. 3 lakhs against pro-notes of the central banks) and an arrangement for overdraft for Rs. 2·85 lakhs also at bank rate secured by Government paper.

(ii) Bombay.—The provincial bank had a cash credit of Rs. 8 lakhs which was curtailed 2 years ago and has now been completely stopped.

(iii) *Burma.*—Some central banks had arrangements for advances against Government paper as well as societies' pro-notes. The total of advances is only Rs. 2 lakhs actually given *plus* Rs. 1 lakh for which arrangements are practically complete.

(iv) *Central Provinces.*—The provincial bank had cash credit up to Rs. 4 lakhs against societies' pro-notes but this has recently been withdrawn. Central banks at several places get advances on the security of Government paper.

(v) *Madras.*—The Madras Central Urban Bank and the central banks are granted cash credits on the security of rural credit societies' pro-notes both for the purposes of granting short-term agricultural loans and for being utilized as fluid resources. The credit so made available was at a flat rate of 6½ per cent. The Imperial Bank of India has recently notified its intention to discontinue the accommodation for fluid resources on the security of agricultural societies' pro-notes and it has required the substitution in 5 years at the rate of 20 per each year, of Government paper in place of societies' pro-notes. The rate of interest is no longer a fixed one but is the fluctuating bank rate. During the last two years two-fifths of the accommodation for fluid resources on co-operative paper has actually been withdrawn.

(vi) *The Punjab.*—All central institutions have overdraft facilities against Government paper, used almost entirely for the purpose of repaying deposits and hardly at all for lending to primary societies.

The following statement gives the total amount of advances to co-operative banks by the Imperial Bank of India as on the 31st December 1928.

Province.	Limit of credit.		Total.
	Against Government and other authorized securities, etc.	Against the borrower's D. P. Notes and D. P. Notes of Rural Credit Societies.	
Bengal	33,34,525	2,10,000	35,44,525
Bombay	8,31,750	4,00,000	12,31,750
Bihar and Orissa	2,85,000	6,00,000	8,85,000
Burma	29,72,410	1,00,000	30,72,410
Central Provinces	6,00,000	2,00,000	8,00,000
Delhi	7,89,612	..	7,89,612
Madras	21,71,900	54,16,000	75,87,900
Punjab	83,41,781	3,66,262	87,08,043
United Provinces	20,600	..	20,600
Total	1,93,47,578	72,92,262	2,66,39,840

181. The policy of the Imperial Bank of India in regard to the grant of financial assistance to some of the provincial and central co-operative banks seems of late to have undergone a definite change; and it is stated that it shows to-day a much smaller measure of readiness to help them than it used to do in the past. From the evidence received it appears that the Imperial Bank of India is prepared to continue the accommodation hitherto given against societies' pro-notes so long as such accommodation is required for short-term agricultural loans. An application made by the Madras Central Urban Bank this year for such accommodation and supported by the Registrar was, however, rejected by the Imperial Bank. In so far as the accommodation is utilized for the purpose of fluid resources, the Imperial Bank insists on the replacement of the pro-notes of societies by Government promissory notes. The object of the Bank in taking this step is said to be to induce the co-operative banks to build up fluid resources within the movement itself and not depend on outside sources of help, for it may not always be possible to depend on the Imperial Bank in a time of crisis as that may happen to be a time when the Imperial Bank itself may find it necessary to guard its own fluid resources. The Imperial Bank has also indicated two other objections to the present system, *viz.*, (1) that the value of the security depends on the sound working of the primary societies, and the complaints received of enormous overdues and inefficient audit and control show that all is not well with the primary societies everywhere; and (2) that the security afforded by societies' pro-notes is not in the long run a first class and desirable security as in the last resort any sales by the Imperial Bank of land of the cultivators which is the ultimate backing to the societies' paper will not be a practical proposition and may be *politically* undesirable. The view of the co-operators on the other hand is that there is nothing more secure than rural societies' paper, backed as it is by the joint and unlimited liability of the members, which is a real and a powerful factor in co-operative credit; that in practice the central and provincial banks accept as collateral security and transfer to the Imperial Bank only the pro-notes of good societies and of short maturity; that the conditions* which regulate the overdrafts

*The conditions are:—

(i) As a general rule, the amount of the cash credit is not allowed to exceed the owned capital of the central bank concerned. (It is much less in practice under the existing arrangements).

(ii) The actual value of the collateral securities furnished should be in excess of the cash credit sanctioned by at least 33⅓ per cent.

(iii) Each central bank should forward to the Imperial Bank every quarter a list of promissory notes lodged as collateral securities showing the amount outstanding on each promissory note together with a certificate to the effect that the promissory notes lodged as collateral securities are in order. The list and the certificate are verified every half-year by the Deputy Registrar concerned, and the certificate of each verification is forwarded to the Imperial Bank through the Registrar.

are very stringent; and that ultimate recourse to land sales to liquidate such paper will generally not arise and that the risk is therefore imaginary. Co-operators further urge that the maintenance of fluid resources means cost and that if such cost is to come from the income of the co-operative banks, the margin of their profits will be considerably reduced and the attempts at further reduction of rates of interest to agriculturists will fail. The ultimate result therefore of the action of the Imperial Bank will probably be to make money dearer to the agriculturists. It is also pointed out that the entire limit of credit hitherto allowed to all the co-operative banks in India on the cover of societies' pronotes is no more than Rs. 73 lakhs, part of which was used for short term loans and the rest was mostly left undrawn to serve as fluid resources. This was a comparatively small sum for the Imperial Bank with its large resources. Moreover, as the Bank enjoys the benefit of the large free balances of Government there is a moral obligation on the part of the Bank to finance the agricultural co-operative societies and if any change in the existing arrangements is at all called for, it is in the direction of turning that moral obligation into a contractual guarantee or a statutory liability. We have discussed this matter fully with Sir Osborne Smith, Senior Managing Governor of the Imperial Bank of India and we emphasized in our discussion the importance of these facilities being generously given on *proper* co-operative paper satisfying the standards prescribed by the Bank. We are glad to note that Sir Osborne Smith has assured the Committee that if the co-operative banks offered as security only the paper of A and B class societies,* the Imperial Bank of India would be prepared to give the matter serious and sympathetic consideration. We desire again to emphasize the importance of these facilities to the co-operative movement. We feel that the change of policy to which we have referred is unfortunate, especially at a time when the co-operative movement is growing in vitality and is extending the scope of its usefulness towards the social and economic uplift of the rural population and when its financial needs are therefore likely to increase rapidly.

182. Complaints have also been received about the difficulties raised by the Imperial Bank of India in regard to the free remittance of funds by co-operative banks. The Government of India have held the view that buying and selling of remittance for other than co-operative purposes, is not consistent with the principles of co-operative banking and have ordered that remittance transfer receipts for *bona fide* co-operative purposes may be issued if the co-operative banks certify that the transfer is for co-operative

* For classification of Societies into A, B, C and D, see Appendix II Townsend Report, page 147.

purpose. It has been stated that even the certificates of co-operative banks to this effect are not accepted by certain branches of the Imperial Bank, and it is urged that this attitude is uncalled for and unjustifiable. The action taken by the Imperial Bank in the matter has been justified by its Managing Governor in his evidence before us as warranted in the interests not only of the Imperial Bank but also of the Indian joint-stock banks which do not enjoy the facility of free transfers. He thinks it is irregular for co-operative banks subsidized by the tax-payer to the extent of the cost of the Co-operative Department and exemption from income-tax, to compete in ordinary banking business with commercial banks which have no such advantage. We consider that free remittance of funds for co-operative purposes is of the utmost importance to the co-operative movement and that no attempt should be made to curtail the privileges under the rules of the Government of India in this matter. As regards remittance facilities for other than co-operative purposes we recommend that co-operative banks should be entitled to the same privileges as joint-stock banks. We may in this connection invite attention to the following extract from the memorandum of the foreign banking experts on Commercial Banking with which we whole-heartedly agree :—

> "The co-operative movement in spite of imperfections and of unavoidable setbacks deserves every possible assistance from all quarters, because there is no better instrument for raising the level of the agriculturist of this country than the co-operative effort, and a strong appeal to the banking interests of the country to assist this movement seems not at all out of place. The Imperial Bank particularly ought to continue and to increase its endeavours to supplement the present organization of co-operative credit with expert advice in a business spirit and with financial assistance."

183. It has been brought to our notice that the Imperial Bank has withdrawn the cash credit in the case of the Bombay Provincial Bank even against Government paper because under the Provincial Bank's debenture trust deed, the trustees have a floating charge on all the general assets of the bank. The Royal Commission on Agriculture held the view that in the absence of special conditions a simple floating charge does not prevent the assets from being pledged as cover for loans from, or overdrafts with, the Imperial Bank. The Managing Governor of the Imperial Bank, has, however, pointed out that the debenture trust deed is not free from special conditions, *vide* the prohibitory clause against subsequent charges contained in paragraph 6 of the deed. He has reported that the Imperial Bank's decision was come to after obtaining legal advice on the point and that the proper course for the Bombay Provincial Co-operative Bank is to amend their deben-

ture trust deed in such a way as to cause the security offered to the Imperial Bank to rank prior to that created under the deed. While we agree that the trust deed might require to be amended so as to remove the special conditions referred to above, we do not think that in this case the authorities of the Imperial Bank are justified in demanding that the security offered to them should rank prior to that created under the deed.

184. Our colleague, Mr. G. K. Devadhar, does not wholly agree with the conclusion in the preceding paragraph. He holds that the Imperial Bank of India is putting too technical and narrow an interpretation on the debenture trust deed of the Bombay Provincial Co-operative Bank, which is not borne out by the authoritative legal opinion and current banking practice. He holds that (1) the debenture deed is of the essence of a floating charge on the general assets, for the time being, of a going concern, which remains dormant until the undertaking charged ceases to be a going concern or until the person in whose favour the charge is created intervenes; (2) until such intervention, the body concerned has a free hand to dispose of assets, such as those represented in the present instance by 'agricultural paper' or Government securities, in the ordinary course of its business and the institution is at liberty to create specific mortgages ranking in priority to the floating charge: (3) with the development of banking and the proper appreciation of the legal significance of a floating charge, it is not the practice now to insist, as used to be not uncommon previously, on provision being made in debenture trust deeds specifically empowering companies to deal freely with their assets in the ordinary course of their business; and (4) accordingly the Imperial Bank of India may well be requested and again approached to reconsider its decision in the matter of allowing such credits to the Bombay Provincial Co-operative Bank. In view of the fact that the trust deed of the Provincial Co-operative Bank contains a special condition that the bank cannot create any subsequent mortgage which will rank *pari passu* or prior to the charge created in favour of the debenture-holder, the rest of the Committee feel unable to go beyond the recommendation they have made in the preceding paragraph, until the legal position arising out of the special condition referred to is cleared up by a competent legal authority acceptable to both parties to the dispute.

185. As regards the relations of co-operative banks with other joint-stock banks, no serious complaints have been made by joint-stock banks of unfair competition. In fact, their respective spheres of activity are so widely apart that there does not exist at present scope for a close competition between them. There is, however, a feeling that in the matter of deposits the co-operative banks with the help of Government assistance and prestige are competing unfairly. But figures furnished by various Provincial

Committees tend to show that the allegation of unfair competition is not well founded. For example, the deposit rates of co-operative banks in Bihar and Orissa, where rates are higher than many other provinces, compare as follows with the joint-stock banks' rates :—

Banks.	Current account.	Savings bank.	Fixed deposit 1 year.
Imperial Bank	*nil.*	3 per cent.	3½ per cent.
Provincial Co-operative Bank	2 per cent.	4 „	4½ „
Orissa Co-operative Central Banks	..	4 „	7 „
Other Co-operative Central Banks	..	4 „	6 „
Orissa Joint-Stock Banks	..	3¾ „	6½—7½ „
Other joint-stock banks	2—3 per cent.	3¾—4 „	5—6 „

Moreover, at present the amount of deposits which the central banks accept are limited, and the rates of interest offered for them are not likely to be higher than the lending rate of the provincial banks which is mostly 6 per cent, for no purpose will be served by attracting dearer local money when cheaper money can be had from the provincial banks. Generally speaking, it is, therefore, doubtful if there could be any serious competition between them and the joint-stock banks. The Secretary and Treasurer of the Imperial Bank of India at Calcutta has himself admitted this before the United Provinces Committee.

The Madras Committee have pointed out that there is one direction in which there is some competition which is bound to grow in future. It is in the matter of produce loans. It has not reached an acute stage yet; but the co-operative banks cannot in the end fail to affect the lending business of other institutions so far as it relates to loans against produce. But the Committee add that the extension of the co-operative activity in this sphere is in the ultimate interests of the cultivator to whom it would secure with more certainty and in a much larger measure the profits of agriculture. We consider that loans against produce to the members of co-operative societies are of great economic benefit to the cultivators and we recommend that such loans should be encouraged subject to storage accommodation being available and subject also to the provisions of the by-laws of these societies.

186. The Managing Governor of the Imperial Bank of India in his evidence suggested that co-operative banks should confine their activities to co-operative banking and should not be allowed to compete in other forms of banking with commercial banks and indigenous bankers. They do not compete at present to any great

extent, but he referred to the considerable body of opinion among those interested in the movement which wanted co-operative banks to undertake all forms of banking. He expressed the opinion that co-operative banks have not the necessary knowledge or organization safely to undertake the business. The forms of banking he had in mind were opening of current accounts, purchase of drafts and sale of remittance. Co-operators, specially those from Bombay, disputed his statement about the want of knowledge and business capacity of co-operative banks to do these items of business. We have already recommended that granting credits on current account and cheque transactions should be introduced in co-operative institutions wherever possible. As regards remittance business we do not desire to place any restrictions on the activities of co-operative societies, but we have recommended that the special facilities for free remittances granted by the Government should be restricted to remittances for co-operative purposes only and that in regard to other remittances the co-operative banks should be given the rates enjoyed by the joint-stock banks.

187. In connection with the relations between the co-operative banks and the other banking institutions, a question is often raised as to the ultimate relations of the Government with the co-operative movement. The Managing Governor of the Imperial Bank of India has stated in his evidence that the credit which the co-operative movement enjoys in the money market is chiefly based on the connection of Government with the movement and the implications of that connection have not, so far as he knows, been clearly defined. As pointed out by the Central Areas Committee, in theory the co-operative department of Government is responsible for nothing except propaganda and audit, but in practice the responsibility actually goes much further. It is suggested that the undefined responsibility of Government is perhaps the reason for co-operative banks in Madras being required by the Registrar to have dealings only with the Imperial Bank for purposes of cash credits and overdrafts. When the Central Provinces provincial bank suspended payment in 1920-21, 24 out of 34 central banks were compelled to seek financial assistance from Government which arranged to provide sums to be utilized in giving loans to members of societies on the guarantee of the societies as corporate bodies on behalf of their members. The gesture was interpreted by the public as an implied Government guarantee of the solvency of the banks and it did more than anything else to restore the confidence of the depositors. The financial solvency of the provincial bank was restored in 1923. In Burma, where the movement has practically collapsed, the Government has taken the responsibility to attempt the salvage. The collapse of the provincial bank had to be averted by an overdraft which the Imperial Bank allowed it on the guarantee of Government. Government has in fact undertaken to contribute a sum of Rs. 35

lakhs to repay all its depositors in full, and this is estimated to be sufficient for the purpose. On the whole, the position is that ordinarily the Government does not at present assume any financial responsibility in case of failure of any co-operative organization. We recommend that when the movement requires State aid in any exceptional circumstances as in the case of Central Provinces and Burma in the past, it should continue to render such assistance as may in its opinion be necessary. But in the interests of the general taxpayer and to encourage self-help and self-reliance in the co-operators themselves, we would suggest that the State aid should be of a temporary nature, sufficient to enable the societies to tide over the crisis.

188. So far as the indigenous bankers and money-lenders are concerned, co-operative societies have seriously competed with them. The Punjab Committee have broadly summarized the position of the indigenous banker in the following words: "The indigenous banker has found it impossible to compete with the Imperial Bank in remittance, with the co-operative banks in deposits, and the joint-stock banks in advances. With deposits it is less a matter of rates than of confidence. His rates, 5 to 6 per cent., are not very different from those of leading co-operative banks, but he does not, and cannot inspire as much confidence as banks which are under the ægis (though not under the management) of Government. He has felt their competition the more keenly inasmuch as like them he draws most of his depositors from the official and professional classes." This has not, however, embittered their relations. Many indigenous bankers are directors of co-operative banks. Some of the bigger bankers have also placed money on fixed deposit with co-operative banks. A few act as treasurers and keep cash balances of the bank in current account with themselves. In many cases, co-operative banks depend for their very existence on the help and support received from the indigenous bankers and are even sometimes run by them. We look forward to the continuance of these relations in the future.

PRESENT ADEQUACY OF FUNDS AND FUTURE NEEDS.

189. In recent years the co-operative movement in most provinces has had more money than it could utilize in advances to borrowers. We give below certain figures relating to provincial banks which bear out this statement:

Provincial Bank.	Amount invested in Government Securities. (Rs. in lakhs.)	Date.
Bengal	54	31st December 1928.
Bombay	49	31st March 1929.
Bihar and Orissa	15	15th November 1928.
Central Provinces	72	30th June 1929.
Madras	58	30th June 1929.

But during the last six months or so, owing to the fall in prices of agricultural produce, the resources of some of the provincial banks have proved inadequate to meet the requirements of the societies and advances have been given by or asked for from Provincial Governments. We recommend that when a Provincial Government is satisfied that for meeting the needs of the movement in exceptional circumstances, or for the development of the agricultural industry, it is necessary to make loanable capital available to the co-operative banks, the Provincial Government with the concurrence of its legislature should place at the disposal of the movement such loans as may be necessary to meet the requirements. Such funds shall be placed at the disposal of the provincial banks to be loaned out to central banks and primary societies.

We further recommend that contributions from Government funds to the expenses of the co-operative movement in backward tracts and among the backward classes should be continued and increased.

CERTAIN DEMANDS OF CO-OPERATIVE BANKS.

190. The Co-operative Banks have put forward a claim for the following concessions :—

(1) Placing on a footing of statutory or contractual guarantee the financial facilities at present enjoyed by the co-operative banks at the hands of the Imperial Bank of India and the provision of finance on more favourable terms, and for longer periods, than at present. Loans for periods of over twelve months, but not exceeding twenty-four months, should be granted, on pro-notes or on bonds of provincial banks, at bank rate with fixed instalments for repayment; and short term loans for periods of 12 months and under should be granted on pro-notes at 1 per cent below the bank rate.

(2) The grant to co-operative banks of each credits for agricultural operations and the discounting of their bills of exchange.

(3) The recognition of approved co-operative central banks in areas where the Imperial Bank of India has no branches, as agencies for the management of Government sub-treasuries.

(4) The recognition of inland exchange business as a legitimate part of the operations of the co-operative banks; and the grant of further facilities for transmission of funds through the treasuries, particularly in *taluka* towns, with a view to encourage the opening of urban banks and branches of provincial or central banks at these centres.

(5) Provision of cheap capital for the acquisition or construction of godowns in rural areas in order to encourage the marketing of agricultural crops financed on co-operative basis.

(6) Exemption to co-operative societies from payment of income-tax on earnings from investments in public securities or land mortgage debentures

191. In regard to items (1) and (2) in paragraph 190, we have made in a previous paragraph certain recommendations regarding the facilities to be granted by the Imperial Bank of India to co-operative banks. Those recommendations are intended to cover the period before the establishment of the Reserve Bank of India. When this latter institution is established, we intend that provision should be made in the Reserve Bank Act itself for linking up the co-operative banks with the Central Bank of the country and for making the provision of agricultural finance one of the functions of the Reserve Bank. This matter will be dealt with more fully later on in chapter XXII. Broadly speaking, the Reserve Bank Act should make the following provisions :—

(i) The provincial co-operative banks should along with joint-stock banks be included in the list of member banks and entitled to rediscount facilities from the Reserve Bank.

(ii) The Reserve Bank should be authorized to rediscount agricultural bills drawn or issued for the purpose of financing seasonal agricultural operations or the marketing of crops, and in order to meet the special conditions of agriculture in India these bills might be such as mature within 9 months from the date of their rediscount by the Reserve Bank.

(iii) Although in the interests of the liquidity of the Reserve Bank's assets it would be necessary to prescribe a maximum limit for the amount of agricultural bills rediscounted by the Reserve Bank, the fixation of the limit should take into account the requirements of agriculture and avoid the danger of making the provision nugatory.

(iv) The Reserve Bank should also be authorized to make loans and advances repayable on demand or on the expiry of fixed period not exceeding 90 days on the security of agricultural paper endorsed by the provincial bank.

(v) The Reserve Bank should be given power to make loans and advances on the security of movable goods, wares and merchandise, besides warehouse warrants or warehouse receipts representing the same. These

powers would enable the Reserve Bank to ensure the supply of cheap and adequate credit to agriculture.

192. As regards item (3) in paragraph 190 we agree that it might possibly enhance their status if co-operative banks were entrusted with the management of sub-treasuries. But we do not think it advisable to entrust this work to co-operative banks in the present state of the working of the movement. We think that for some time to come co-operators will be well advised to turn all their energies to strengthen their present position by giving effect to the various measures that we have recommended, and that they should not attempt to take up additional work which lies outside the sphere of co-operation. We are, moreover, doubtful if the existing staff in the banks is capable of undertaking the suggested management of Government sub-treasuries.

193. As regards item (4) in paragraph 190 we have already indicated the extent to which the State should assist the co-operative movement for the supply of *free* remittance facilities. At present the Imperial Bank of India provides remittance facilities to joint-stock banks between places where these banks have branches at special concession rates which are half of the rates charged by the Bank to the public. Our recommendations in a previous paragraph that these concession rates should also be extended to co-operative banks will only cover the period before the establishment of the Reserve Bank. Thereafter the provincial bank, in view of its position as a member bank in the Reserve Bank system, will automatically be entitled to any special concession which the Reserve Bank might offer to its member banks. We do not recommend any further concession beyond those suggested above.

194. We are in full sympathy with demand No. (5) for the provision of cheap capital for the acquisition or construction of godowns in rural areas. We shall deal with this point a little more fully in connection with the co-operative sale societies.

195. There remains only the question of exemption from income-tax. The profits of the co-operative societies are already exempt from income-tax but they are not exempt from super-tax. The Bombay Co-operative Societies Act provides for exemption from payment of super-tax by the issue of a notification by the Government of India, and the Bombay Committee observe that they find no valid grounds for recovery of super-tax from co-operative societies. We agree that the profits of co-operative societies should be exempt from both income-tax and super-tax. The position in regard to income from Government securities stands on a different footing. Income from Government securities is not now treated as part of the profits of the business of co-operative banks. There is some dispute as to the exact intent and meaning of the existing Government Notification on the subject. The co-operative banks

contend that the Notification covers the income from Government securities also. This is a matter of pure legal interpretation and if the Notification covers such income, there is nothing further to be said. On the assumption that it does not cover the income from securities, representatives of the co-operative organizations have put forward a strong claim for the exemption of such income from the levy of income-tax. Their main contention is that they are required to invest their reserve funds in approved securities and also to maintain a certain proportion of their funds in Government securities for the purpose of fluid resources, that it is not possible at any particular time to state what exact amount is required for the purpose from day to day and that it is therefore unfair that such investments should be taxed at the source and treated as if the interest earned was income derived from business that lay outside the legitimate operations of co-operative banks.

196. Several Provincial Committees have supported this claim for exemption. When it was pointed out to the representatives of the co-operative banks that their claim could not reasonably be extended beyond the investments absolutely necessary for fluid resources and for the investment of reserve funds, they admitted the force of this contention. We recommend the exemption of co-operative societies from payment of income-tax and super-tax on earnings from investments in public securities or land mortgage debentures to the extent such investments are necessary for the purpose of their fluid resources and for the investment of reserve funds, as prescribed by the rules. Our recommendation is, however, based on the understanding that the co-operative banks will pass on the benefit of this concession towards the improvement of the position of the agriculturist.

CHAPTER X.

RURAL FINANCE—*contd.*

LAND MORTGAGE BANKS.

197. We have referred in Chapter VI to the nature of long-term credit required by the agriculturist, the substantial periods for which such credits are required, and the almost unlimited demand for it. Ordinary commercial banks and moneylenders cannot afford to tie up their capital for such long periods nor to recover the loans in small driblets out of the earnings or savings of the borrower. Hence arises the need for special types of credit institutions generally called land mortgage banks.

DIFFERENT TYPES OF LAND MORTGAGE BANKS.*

198. Land mortgage banks are of various types and differ widely in their features in different countries. When we deal with co-operative organizations or land credit associations, it is well to remember that the organizations in other countries whose features we have copied in some measure have sprung up more as practical solutions of peculiar local difficulties and were not conceived at their inception as embodiments of any definite economic theories. So, in determining the type that suits us most, we must not proceed on mere *a priori* grounds or the inherent merits of any particular type, without regard to the peculiar needs of Indian rural economy and social and political conditions. Land mortgage banks may be classified in different ways on different principles. According to one basis of classification they may be *co-operative*, *non-co-operative*, or *quasi-co-operative*. The co-operative type is represented by the Prussian Farm Mortgage Mutual Credit Associations which are associations of borrowers. They have no capital. They endeavour to keep the rate of interest low and do not aim at profit. Each member pays a small entrance fee to meet the necessary expenses, initial cost of land valuations and other incidental charges. Credit is created by the issue of mortgage bonds bearing interest and made payable to bearer, and these bonds are regarded as perfect types of secure investment and are quoted on the Exchanges throughout Germany. These Landschaften are now combined into a 'Central Landschaft' which exercises the function of a central co-operative organisation. The Federal Farm Loan Banks of the United States of America are also illustrative of the co-operative type. The non-co-operative

* We are indebted to Herrick on "Rural credits", Morman on "Principles of Rural credits", Strickland's Studies in European Co-operation, the Report of the Baroda Land Mortgage Bank Committee, 1924-25, and the Reports of the various Provincial Committees for a great deal of the matter in this chapter.

type is represented by the numerous commercial and joint-stock land mortgage banks working all over the Continent of Europe. They work for profit and declare dividends, but the State exercises some measure of control over their operations in order to ensure that they do not cause hardship to borrowers and that they fulfil their obligations to their investors or debenture holders. They are based mostly on the French model of *Credit Foncier de France*. The Agricultural Bank of Egypt is also illustrative of the non-co-operative type. In between these two types, there are institutions which combine co-operative and commercial ideals in varying proportions and are thus of a quasi-co-operative character. Associations with membership of borrowers and non-borrowers, operating over fairly large areas and formed with share capital and on a limited liability basis, but in which each member has a single vote irrespective of his share capital and the dividend on share capital is fixed at a low figure, may be taken as illustrations of the quasi-co-operative type, of which the Hungarian Land Mortgage Institute for large land owners and the National Small Holdings Land Mortgage Institutes for small owners are examples.

THE TYPE THAT SUITS INDIA.

199. What is the form of land mortgage bank that suits India best? The answer to this question depends partly upon the class of person whose long-term credit needs are to be served. The commercial land mortgage bank may perhaps be better suited to finance big landlords or *zemindars*. So far as relief to small agriculturists and owners of small holdings is concerned, the co-operative type is the most suitable. The poor ryots with small holdings cannot secure credit except through organizations based on mutual association and guarantee, and the co-operative land mortgage bank is a legitimate application of that principle. The funds of such a bank can best be raised only on the collective guarantee of the properties mortgaged by the members. It follows that the members who thus create the credit should have a voice in the management of their bank on well recognised principles of democratically controlled co-operative institutions. Agriculture will remain for a long time to come, in India, an individual effort or a family effort at best; but for specific purposes, associated effort of agriculturists can be and ought to be organized. The schemes adopted and worked in the Punjab, Madras and Bombay as well as in Assam and Bengal are in a sense of the co-operative type. In other provinces, there is as yet no action in the field of land mortgage banking.

200. Strictly speaking, however, the type which is in vogue in India is of the quasi-co-operative variety, because nowhere in India has it approached the fully co-operative type, although there are

substantial elements of the co-operative theory and practice in all of these banks. This will be evident from the detailed description of the land mortgage banks in different parts of India in the Provincial reports. They are conceived as limited liability associations of borrowers with a few non-borrowing individuals thrown in for attracting initial capital as well as the business talent and organising capacity needed to make the management efficient. The number of shares owned by the members is limited; the rule of 'one man, one vote' irrespective of the share capital subscribed by them, is generally adopted; dividends are restricted to a low figure and the goal of gradual elimination of non-borrowers is kept in view to impart a co-operative spirit into them. The fact however remains that the work of a mortgage bank "is recognised on all hands to be extremely impersonal as devoid of the human element as possible",* and that the human and personal elements which are the chief characteristics of the Raiffeisen type of societies cannot be infused into them in any appreciable measure. While mutual knowledge of, and control over, one another among members is the insistent feature in the case of the unlimited liability credit society, the insistence in the case of a land mortgage credit society with limited liability is on the capacity and business habits of the directorate, in order to ensure sound valuation of security, careful investigation of titles, correct assessment of borrowers' credit and repaying capacity and efficient management of affairs.

201. The constitution that is to be prescribed for land mortgage banks in India has been a subject of prolonged discussions among official and non-official co-operators. It is unnecessary to go back to the discussions which preceded those at the Registrars' Conference of 1926, where a definite scheme was adopted by the Registrars with the concurrence of the non-official co-operators. The material portion of the resolution passed by that conference is reproduced below :—

"(1) Mortgage banks based on co-operative principles are desirable in many parts of India. No transaction should be undertaken which is not economically profitable to the borrower.

(2) *Objects.*—The principal objects should be :—

(*a*) the redemption of the land and houses of agriculturists,

(*b*) the improvement of lands and methods of cultivation and the building of houses of agriculturists,

(*c*) the liquidation of old debts, and

(*d*) the purchase of land in special cases only to be prescribed in the by-laws. (The precaution is evidently to prevent land speculation and indiscriminate borrowing to buy land.)

*Baroda Land Mortgage Committee Report, page 96.

(3) *Area and Management.*—The area of operations should be the smallest unit consistent with competent management. The imposition of liability on village credit societies or the confinement of mortgage loans to members of such societies are not recommended, but the bank should consult the village societies in the case of all loans to members of such a society. Punctuality in repayment should be rigidly enforced in mortgage banks.

(4) *Finance.*—A reasonable total of share money should be held by each bank in order to reassure the investing public. In provinces in which the property can be sold on foreclosure, no loan should exceed half the value of the mortgaged properties.

No excess liability is required beyond the amount actually borrowed by a member *plus* his share money. If no excess liability is imposed, the share money of a borrower should not be less than one-twentieth of his loan.

The minimum loan should be such as to repay the costs of the transaction to the bank. Each bank should prescribe in its by-laws a maximum loan from time to time according to its financial position.

Debentures should be issued by a central financing body in each province rather than by separate mortgage banks."

202. The Royal Commission on Agriculture in their chapter on Co-operation carefully considered the scheme embodied in the resolution of the Registrars' Conference (1926). They found themselves in substantial agreement with it and they said :—"Such experience of the practical working of land mortgage banks as has been gained since this resolution was passed has not shown the need for any alteration in it, nor has our own examination of the case suggested any alteration". The recommendations of the Royal Commission are as follows :—

(1) The resolution passed by the Conference of Registrars of 1926 in favour of the establishment of land mortgage banks is endorsed. (Para. 381.)

(2) Land mortgage banks should be established under the provisions of the Co-operative Acts. (Para. 382.)

(3) The guarantee of interest on the debentures of land mortgage banks is the most suitable form in which assistance to these banks can be given by Government. (Para. 383.)

(4) Government assistance to land mortgage banks in the form of subscription to their debentures is not recommended. (Para. 383.)

(5) The debentures of land mortgage banks, the interest on which is guaranteed by Government, should be added to the list of trustee securities under the Trustees' Act. (Para. 383.)

(6) The issue of the debentures of land mortgage banks should be controlled by a central organisation. (Para. 383.)

(7) Land mortgage banks should only be organised after the most careful preliminary enquiry and their constitution and working should be as simple as possible. (Para. 384.)

(8) For some years to come, there should be an official member on the committee of management of each bank. (Para. 384.)

203. The Registrars' Conference of 1928 discussed in great detail the several recommendations of the Royal Commission; and the suggestions of the Conference, important as they are on some matters, do not materially alter the 1926 scheme of the Registrars' Conference as amplified and amended by the Royal Commission. The resolution of the Registrars' Conference of 1928 runs as follows :—

(1) "The Conference entirely endorses the resolution passed by the Conference of Registrars in 1926 in favour of the establishment of land mortgage banks".

(2) "The Conference is of opinion that land mortgage banks should be established under the provisions of the Co-operative Acts now in force in British India".

(3) "A nominee of Government is necessary on the managing committee of a primary land mortgage bank, except where the interests of Government and debenture holders are sufficiently safeguarded by the appointment of a trustee acceptable to Government".

(4) "Government assistance to land mortgage banks in the form of subscriptions to their debentures is recommended while these banks are in their early stages, and assistance is also recommended in the form of loans".

(5) "The guarantee of interest on the debentures of land mortgage banks is the most suitable form in which assistance can be given by Government".

(6) "The debentures of land mortgage banks, the interest on which is guaranteed by Government, should be added to the list of trustee securities under the Indian Trusts Act, 1882".

(7) "The Conference is of opinion that land mortgage banks should be organised only after the most careful preliminary enquiry and that their constitution and working should be as simple as is consistent with adequate safeguards".

Present position.

204. There are some land mortgage banks, under the Co-operative Societies' Act, now working in the provinces of Punjab, Madras and Bombay and to a small extent in Assam and Bengal. The

progress of working of these banks, and the proposals made by the several Banking Enquiry Committees for the further development of these banks in the light of the experience already gained, are summarized below. There are no land mortgage banks in existence in Bihar and Orissa, Burma, Central Provinces and Berar, the United Provinces and the Central Areas. In Burma, the attempt to pass a separate Act for land mortgage banks, apart from the Burma Co-operative Societies' Act, did not materialize and there is now a proposal before the Burma Government to make an experiment with two independent banks on a very small scale, so that their liabilities may not exceed Rs. 2½ lakhs. The Burma Government have provided Rs. 1 lakh for the working capital of these two banks. Further progress evidently depends upon the results of this small experiment. The Banking Enquiry Committees of those provinces in which there are no land mortgage banks, or ready schemes for their establishment in future, have also suggested some forms of constitution for their future banks.

205. The land mortgage banks actually in operation do not, however, anywhere fully carry out the scheme evolved by the Registrars and the Royal Commission on Agriculture in India. This is to be accounted for partly by the fact that in some provinces, in which land mortgage banks are now working, they were started before the Registrars' scheme of 1926 was formulated and even where they were actually registered subsequently, the plans for their establishment were matured before the 1926 scheme received its final touches.

The Punjab.

206. There are 12 co-operative mortgage banks in the province. With the exception of the banks at Mianwali and Jhang which operate over the whole district, the rest confine their operations to a single *tehsil*. The Jhang co-operative land mortgage bank was the earliest. It was started in 1920. Apart from the agricultural credit societies, only owners of agricultural land may become members. Loans are made for the redemption of land, for the liquidation of unsecured debts and for the improvement of land. No one may be advanced more than 30 times the land revenue payable on the land mortgaged. Since the starting of these banks, nearly Rs. 32 lakhs have been advanced as follows :—

Purpose.	(Rs. in lakhs.)
Repayment of old debts	15
Land Redemption	15
Land Improvement	2
Total	32

On the 1st March 1930 there were 499 defaulters out of about 1,500 borrowers and the large number of defaults is ascribed to bad harvests and imprudent loans.

It is the policy of the department now to limit loans to Rs. 5,000. Only four banks have agreed to do this and seven have a limit of Rs. 10,000 and one Rs. 15,000.

In some banks, directors are reported to be too indulgent in the matter of loans, to themselves and to their relatives. The result is considerable laxity and sometimes fraud. Five banks forbid them altogether and only one allows them without restriction. In six, they are only granted if, firstly, two-thirds of the directors are present and all agree to the loan, and secondly, the official member signifies his approval in writing.

Of the working capital of Rs. 23 lakhs, Rs. 14½ lakhs have been advanced by Government mostly through the Provincial Co-operative Bank. The latter has also raised Rs. 5 lakhs of debentures at 6 per cent. interest, the repayment of which has been guaranteed by Government for 25 years. These arrangements have been made to suit the experimental conditions under which the Mortgage Banks have been started. The Punjab Committee think a time will come when it will be possible for the mortgage banks to raise debentures on their collective assets through the Provincial Co-operative Bank or a Central Mortgage Bank.

Madras.

207. In 1924-25 a scheme for special land mortgage banks was sanctioned and two were registered in that year. Ten such banks were constituted by the end of June 1927, operating over restricted areas of compact groups of villages within a radius of five miles. The reason for this limitation of area was to ensure that all land should be accessible to the investigators of the bank to make enquiries, and to enable the honorary directors to go to the villages concerned readily and check the reports. These banks were formed on a limited liability basis, with share capital, the borrowing power being limited to a multiple of the paid-up capital, ordinarily 8 to 10 times. The banks were expected to raise credit by issuing debentures on the security of agricultural lands which the borrowing members mortgaged to them. Debentures carried interest at 7 per cent when sold to the public. The Government agreed to purchase at 6½ per cent debentures equal in value to those which the banks were able to sell in the market, subject to a limit of Rs. 50,000 to any one bank and Rs. 2½ lakhs for the whole Presidency. The banks lent at 9 per cent. and the maximum amount of the loan did not exceed Rs. 2,000 for an individual. The loans which carried interest at 9 per cent were generally for 16¼ years so that equated annual payments at 12 per cent. of

the total loan would extinguish the debt in 16¼ years. All banks did not adopt this mode of repayment, for some of them favoured the alternative system of payment by equal instalments of a specified portion of the principal with interest on the outstanding amount annually or semi-annually.

As regards the procedure for granting loans, the member presented a loan application to the bank and the loan was granted after assessing the value of the land and ascertaining the member's title to it, his right to alienate it, the necessity for the loan and his repaying capacity. On the mortgage of the land so obtained debentures were sold to the public and the Government, the debenture holder having a floating charge on the mortgages. The banks which had good local management found a fair amount of response for investment in debentures. Repayment by members was on the whole satisfactory. But there have been a few defaults in areas where the failure of crops was frequent.

The later tendency of these banks has been to extend their local area of operations and to increase the individual maximum borrowing power to Rs. 3,000 and now to Rs. 5,000. Many of the banks, however, have failed to sell debentures and it has been found that the existence of a number of independent banks floating a large number of different series of debentures militated not only against the success of debenture issues, but also against the whole scheme.

A Central Land Mortgage Bank has, therefore, been started recently in order to finance local mortgage banks by centralized debenture issues. The constitution of the central bank followed in the main, the recommendations of the Townsend Committee* on Co-operation in Madras. It has collected Rs. 70,400 as share capital up to the 30th June 1930 and debenture money to the value of Rs. 46,000. This debenture money was received in advance while the Bank actually issued debentures only on the 15th September 1930. The Provincial Co-operative Bank purchased debentures of the Central Land Mortgage Bank to the value of Rs. 1 lakh. The Government also are giving some facilities to the latter bank. They have lent Rs. 15,000 without interest for initial working capital to be repaid in the course of a few years. They have also guaranteed interest up to 6 per cent on all debentures floated by the bank in the first five years up to the limit of Rs. 50 lakhs, but for the full term of the issues. They have also lent the services of two Deputy Registrars to inspect local mortgage banks and of ten sub-Deputy Registrars to assist in all enquiries on behalf of the local land mortgage banks. It is proposed that all mortgages obtained by the primary land mortgage banks should be transferred to the central bank and that the latter should issue debentures with a floating charge on all such mortgages. The Registrar is to be the Trustee.

*Townsend Committee, page 65.

for the present, to see that the bank fulfils its obligations to debenture holders. He and another nominee of his have places on the directorate of the bank. Since the starting of the Central Mortgage Bank, loans used to be advanced to the primary banks at 7 per cent, but the rate has been raised to 7½ per cent recently owing to monetary stringency. The primary banks, in their turn, are advancing loans to their borrowing members at 8 per cent. One direct result of the establishment of the Central Land Mortgage Bank has thus been the reduction of the rate of interest on long-term loans from 9 per cent to 8 per cent in the case of the ultimate borrower.

There are now 42 primary land mortgage banks established in the province on a co-operative basis, of which only 8 issued debentures before the Central Land Mortgage Bank was started. Of the primary banks 19 are members of the Central Land Mortgage Bank.

Bombay.

208. There are three land mortgage societies (in the districts of Dharwar, Broach and East Khandesh) working in the province. These have only recently started their operations. The society in one district serves only a *taluka* while the other two serve the whole district. They have sanctioned loans so far to an amount of Rs. 1,15,766. The membership of these societies consists of agriculturists. Loans may be granted for the following purposes:—

(1) the improvement of land and methods of cultivation,

(2) the installation or purchase of costly agricultural plant and machinery,

(3) the redemption of mortgaged lands and houses and liquidation of old debts, and,

(4) the purchase of land for purposes of land improvement or for making better cultivation possible in the general interests of the community or bringing under cultivation cultivable waste or fallow land.

The members contribute as share capital 5 per cent. of their borrowings and this capital is invested separately. The societies have power to advance loans to a maximum of 50 per cent. of the value of the encumbered land, or in special circumstances of house property. The period of loans is from 10 to 30 years. There are representatives of the Registrar of Co-operative Societies and of the Bombay Provincial Co-operative Bank on the committee of management of these societies. The committee's recommendations regarding loans are subject to the approval of the Provincial Bank and the Registrar. Each of the societies has attached

to it an officer of the Revenue Department as Land Officer, whose services have been lent free of charge by Government for the initial period of working. The Provincial Co-operative Bank has undertaken, as a provisional arrangement, to raise additional debentures to finance co-operative land mortgage societies. Government have agreed to purchase to the extent of Rs. 5 lakhs debentures of the Provincial Bank to be earmarked for land mortgage work, of which Rs. 2 lakhs have already been subscribed. The three societies are expected to meet their expenses out of the interest on the investment of their own share capital supplemented by small grants from the Provincial Co-operative Bank.

Bengal.

209. There are two land mortgage banks in Bengal, one at Naogaon in the district of Rajshahi and the other at Bhola in the district of Bakarganj. The Naogaon Bank was registered in 1924 and the Bhola Bank in 1927. Both are limited liability institutions registered under the Co-operative Societies' Act. The Naogaon Bank has an area of operation of 50 square miles. Its membership is confined to persons owning agricultural lands or landed properties in the area. The authorised share capital is Rs 5 lakhs divided into 50,000 shares of Rs. 10 each. No member is allowed to hold shares exceeding Rs. 5,000 in value. On the 31st October 1929, the Bank had a paid-up share capital of Rs. 52,480 and total deposits of Rs. 2,60,851, of which 43 per cent. was for 5 years, 41 per cent. for 2 years and the rest for 1 year. Loans can be granted against mortgage for liquidation of old debts, for the improvement of land and methods of cultivation, for installation and purchase of agricultural machinery, for purchase of land and also for short-term requirements in the form of cash credit advances. The cash credits are now confined to those members who are not members of rural credit societies. Loans to members do not exceed ten times the value of their paid-up share capital and bear interest at a flat rate of 10 to 16 per cent. per annum. The by-laws provide for loans being granted up to a certain proportion of the value of the land mortgaged, but in actual practice they are granted at a fixed rate of Rs. 50 per *bigha* of land. The period of loans varies from 1 to 20 years. Out of the loan of Rs. 3,49,706 outstanding on the 31st October 1929, only Rs. 1,22,216 was payable within 5 years. Thus the bulk of the loans are for longer periods than the deposits from which they are financed. This has been recognized to be unsound and the Bank has recently been empowered to issue long-term debentures, none of which, however, has yet been floated. The Bank has got the strong financial support of the Ganja Cultivators' Co-operative Society, which has a big working capital and a strong reserve fund.

The Bhola Bank is much narrower in scope than the Naogaon Bank. Its paid up share capital is very small and it has not been able to attract any deposits. For its working capital, it is dependent on a loan of Rs. 10,000 from the Barisal Central Bank at 9 per cent repayable in 10 years. The by-laws provide for loans for redemption of old debts, the purchase and improvement of land and also for cash credit advances for current expenses. All loans are secured by mortgages and no loan can exceed one-tenth of the value of the land. No member can borrow more than 5 times his paid up share capital. The maximum period for which loans are now given is 7 years. Interest is charged at a flat rate of 12½ per cent. per annum. Not only actual cultivators, but *talukdars* and *howladars*, are now members of the Bank.

Assam.

210. There are 5 land mortgage banks registered under the Co-operative Societies Act on the basis of limited liability. The Surma Valley Muslim Bank which was only registered in 1930 has not started operations. The Jorhat and the Nowgong Banks which were registered in 1928 and 1929 respectively are reported by the Assam Committee to have done practically no work. The other two banks, *viz.*, the Kamrup Bank which was registered in 1926 and the Sylhet Bank which was registered in 1927 are working with a paid up capital of Rs. 44,590 and Rs. 28,644 respectively and are said to have made some progress.

The objects for which loans may be granted by all the banks are practically identical, *viz.* :—

(1) the redemption of land and houses previously mortgaged,

(2) the improvement of land and methods of cultivation,

(3) the liquidation of old debts,

(4) the purchase of lands in special cases,

(5) the construction of dwelling houses,

(6) the sinking and repair of wells and excavation of tanks,

(7) purchase of agricultural and manufacturing implements and machinery, and

(8) other measures designed to encourage in the members the spirit and practice of thrift, mutual help and self-help.

The Kamrup Bank also provides for loans for purposes of trade, commerce, or the promotion of any industry.

In the case of the Kamrup and Sylhet banks no loans can be given exceeding 20 times the paid-up share money of the borrower or 50 per cent of the market value of the land. The maximum

period of repayment is 20 years and the individual maximum loan is limited to Rs. 10,000. These two banks work on deposits and do not issue debentures. The rates paid on deposits range from 6¼ to 8¼ per cent. The Assam Government have granted loans to the Kamrup Bank. It is reported that overdues of both principal and interest are heavy in both these banks.

Recommendations of the Provincial Committees.

211. The Punjab Committee recommend that the existing limits in the case of some banks, which are higher than Rs. 5,000, should be reduced without delay. They are also impressed with the importance of restricting loans to directors. They think it is too early to give a definite opinion on the question of special facilities for recovery. But they consider that difficulties in recovery provide a useful restraint on careless or reckless lending and deprecate recoveries being made too easy. In the experimental stage they recommend that the period of loans should not exceed 10 years but after that stage is passed, it might be extended to 15 years subject to special precautions being taken to ensure regular payments. They agree with the Royal Commission on Agriculture that debentures of co-operative land mortgage banks should be included in the list of trustee securities. They consider that most of the defects in the existing system are due to lack of experience and can be remedied, given a good directorate. Co-operators, in their opinion, should rely as little as possible on the safeguard of a Government nominee on the management of the banks, and education and character should be sufficiently developed to ensure wise lending and punctual repayment.

212. The Madras Committee consider it advisable to restrict the new primary banks at the outset to the more fertile areas where the crops are more secure. They recommend that the central land mortgage banks should work in conjunction with the rural credit societies and that if there is a failure of crops, the latter should give an extension of time for the repayment of loans and that the former should receive the instalments annually with the utmost regularity. The Committee also consider that the central land mortgage bank should not ordinarily receive short-term deposits and that the debentures should be trustee securities.

213. The Bombay Committee recommend that Government should consider the formation of more co-operative land mortgage banks in different parts of the Province without awaiting the results of the work of the three existing institutions. The creation of a central land mortgage bank in the province is also recommended by them, as the provincial bank which had agreed provisionally to finance co-operative land mortgage societies is unwilling to shoulder further responsibility for the work. They suggest that

membership of the central land mortgage bank should be open to the Indian joint-stock banks, the Imperial Bank of India, the provincial and other co-operative banks and to land-holding classes. If any portion of the share capital is not subscribed by these bodies, they recommend that Government should take up the unsubscribed portion and gradually dispose of it and that the outside shareholders and Government should gradually withdraw as the shareholding of the local societies increases. They suggest that the representatives of the local societies should have a large and increasing share in the management of the bank and that the Registrar of Co-operative Societies or some other nominee of Government should have a seat on the directorate. The issue of debentures to the extent of 20 times the paid up capital is recommended by them, with the guarantee of Government both as regards the principal and interest. They also suggest that Government should undertake to subscribe a portion of the debentures and that the debentures should rank as trustee securities. They contemplate that in the fulness of time the central land mortgage bank should absorb the present long-term *takavi* operations of Government. They suggest, that this bank should establish contact with the special agency for minor irrigation works and utilize its services for the extension of irrigation. They do not recommend the grant of the power of foreclosure in the absence of actual experience of the working of land mortgage societies and in view of the fact that such power would bring the system into discredit from the outset as an agency bent on expropriating from their lands those who resort to it for borrowings. They suggest that any joint-stock banking organisation which makes advances to agriculturists on the security of mortgage of land should be regulated by law and should not be given any facilities by Government. In view of the difference in agricultural, social and general economic conditions between Sind and the rest of the Presidency, the Committee recommend the formation of a separate land mortgage bank for Sind or if that is not possible, the opening of a branch of a central land mortgage bank with a local committee to assist in its working.

214. The Bengal Committee recommend that for the present central co-operative banks should be required to open land mortgage departments, the extra share capital required being subscribed partly by affiliated rural credit societies and partly by other limited liability societies to be started for substantial agriculturists and rent receivers who are not now members of rural credit societies. They suggest that the period of the loans should extend from 5 to 20 years and the amount should not exceed half the value of the land mortgaged. In addition to share capital, they recommend that the land mortgage departments should obtain funds from long-term deposits and debentures

issued by the provincial co-operative banks which may make such underwriting arrangements with the Imperial Bank of India or any other bank as may be necessary. The debenture issue should be limited to half the value of land covered by mortgages and should not exceed 15 times the paid-up capital and reserve funds ear-marked for the land mortgage bank department of the central bank concerned. In regard to debentures they recommend that Government should guarantee interest and that the debentures should be included in the list of trustee securities, Government having such control as may be required by them for discharging their responsibilities. They suggest that two trustees elected by debenture holders should be associated with the persons appointed by the State in the administration of the Provincial bank. A sinking fund should be set up for the repayment of debenture bonds, which should be freely utilised to keep up the price of the bonds. The grant of summary powers for foreclosure and sale is not recommended as, apart from undue rigour to borrowers, it would lead to laxity in scrutinising the security and to carelessness in fixing the amount of the loan.

215. The Assam Committee are not in favour of multiplication of banks till the existing banks are placed on a sound footing. They suggest that loans should be confined for the present to the purpose of repayment of old debts. They place reliance on deposits to finance land mortgage banks in the initial stages and do not recommend the issue of debentures at present.

Main questions affecting Land Mortgage Banks.

216. The main questions affecting the working of the co-operative land mortgage banks in India may be thus summarized :—

(1) What should be the economic purposes for which long-term land mortgage credit might beneficially be supplied to agriculturists?

(2) What should be the maximum period for repayment and the mode of repayment?

(3) Whence should mortgage banks derive their working capital? Should share capital be insisted on and if so, what proportion should it bear to the borrowings? Where the issue of land mortgage debentures for raising the bulk of the working capital is favoured, should the issue be by the primary land mortgage banks or by a central agency? If it is to be a central agency, should it be the existing Provincial Co-operative Bank or a separate central land mortgage bank, which should finance only the primary land mortgage banks?

(4) Should land mortgage banks be permitted to receive deposits like co-operative central banks or joint-stock banks, and, if so, for what purposes and under what safeguards?

(5) What should be the relation between the land mortgage bank and the ordinary credit society where they co-exist?

(6) Should the Government give any financial assistance to these banks and if so, what form should it take? Direct loans, exemption from certain taxes and fees, guaranteeing principal or interest of debentures and making them trustee securities and purchase of a portion of debentures are suggested.

(7) Should these banks be invested by special legislation with summary powers of recovery such as the right to sell or foreclose without the intervention of the courts?

OUR RECOMMENDATIONS.

217. We now proceed to make our recommendations. We realize that while these recommendations will be capable of fulfilment in respect of new institutions which may be established hereafter, they will have to be adopted with suitable modifications in the case of existing institutions. Further, these recommendations of ours relate wholly to co-operative land mortgage banks. We consider that there is a great field for these institutions in the immediate future. We have already recommended that in order to satisfy the credit requirements of the classes of agriculturists who are outside the co-operative movement, and to provide substantial loans to big landlords, commercial land mortgage banks on joint-stock basis or on the model of the English Land Mortgage Corporation should be established. We shall deal with these institutions separately at the end of this chapter.

218. As regards co-operative land mortgage banks, the first question relates to the economic purposes for which long-term credit should be supplied to agriculturists by these institutions. It is necessary at the outset to emphasize that no money should be advanced which is not economically profitable to the borrower. We consider that loans by land mortgage banks should be devoted to the following principal objects :—

(*a*) the redemption of land and houses of agriculturists, and the liquidation of old debts,

(*b*) the improvement of land and methods of cultivation and the building of houses of agriculturists, and

(*c*) the purchase of land in special cases.

It will be seen that these objects are the same as those recommended by the Registrars' Conference of 1926, but we have changed the order of precedence for these loans, having regard to the present circumstances of the Indian agriculturist. We think that for a long time to come the resources of the land mortgage banks will be mainly required for enabling the cultivator to redeem his land and his house from mortgage and to pay off his old debts.

219. The amount and period of the loan should be fixed with due regard to the repaying capacity of the borrower and also to the purpose for which the money is advanced. Loans might be granted for stated periods of 5, 10, 15 or 20 years, and for the present the maximum period should be 20 years. We hope that with sound management the banks should be able to extend the period to 30 years, if necessary. Until more experience is gained, we consider it desirable that the amount of individual loans should be limited to a maximum of Rs. 5,000 and in no case should the amount of the loan exceed 50 per cent of the value of the mortgaged security. We have not laid down any minimum limit for loans as we consider that the facilities provided by these banks should be available even for the small agriculturist debtors.

220. We recommend that the repayment of loans should be by a system of equated payments, thereby amortising the loan at the end of a period of years. There are many advantages in this system and the amounts of instalment payable would not generally exceed the amounts ordinarily paid by most of the borrowers in the shape of interest alone. In Madras, we are told that one bank commenced its business with the clients by explaining to them that if they borrowed from that bank and merely paid regularly every year for $16\frac{1}{4}$ years at 12 per cent on the amount borrowed which was the rate they were paying to moneylenders they would be let off without claiming the principal amount. The outstanding feature of this amortisation system is that the bank only charges 9 per cent interest on its long-term loan and that an equated payment on the basis of 12 per cent of the borrowed amount every year provides for the regular payment of interest and for a gradual extinction of the principal within the stated period of about 16 years. In dealing with agriculturists one has, however, to take into account the fact that when loans are taken for the improvement of land or of methods of cultivation, the increased earnings from these improvements would begin to accrue only after a certain period and that the earnings would be higher during the later years than in the beginning. We are, therefore, of the opinion that if local conditions require, a system of graduated payments may be adopted so as to provide for repayment by larger instalments commencing after the investment of the loan on the land has resulted in increased profit. In any case we consider that it is useful to provide alternative methods of repayment in the by-laws of the

bank with full power to the management to enforce that method of repayment which it considers suitable.

221. Turning now to question (3) in paragraph 216 above, we consider that the working capital of the mortgage bank should be derived from two sources, *viz.*, share capital and debentures. There are two ways in which share capital may be obtained. One is by initial subscription by the intending members before any loans are made. There is some advantage in acquiring share capital initially in this manner as it forms a good basis of security to the debentures that may be issued subsequently by the bank and as it further enables the bank to issue loans in anticipation of raising debentures. The second method of raising share capital is to deduct a certain percentage, say 5 per cent., of the amount borrowed by the members at the time the loan is advanced. This system prevails in Madras and enables the bank to raise its share capital gradually and thereby its borrowing capacity also. The percentage of share capital to loan need not be large as the loan is fully secured by the mortgage. The Baroda Committee have recommended in consonance with the American practice that 5 per cent of the loan will be a reasonable share capital. We agree with the principle of this suggestion. We also recommend that in order to ensure the supply of the initial resources wherewith to start the operations of the mortgage bank the provincial Government should, where necessary, make advances free of interest under a stipulation that the advances should be repaid out of the realizations of the debenture issues. These recommendations about share capital are intended to apply to the present stage of the development of these banks. When these banks develop their business very largely, an ideal which is earnestly aimed at, they may require large capital as the foreign banking experts have stated. These experts have recommended that the provincial Government should supply such share capital. We commend these proposals for the careful consideration of the Provincial Governments.

The larger part of the working capital of the mortgage bank should be raised by means of debentures. We do not think it necessary that the proportion of the debenture to the share capital should be limited in the manner suggested by the foreign banking experts, *viz.*, 5 : 1. The proportion varies in the several provinces and we should leave it to the discretion of the co-operators in each province to raise debentures to the extent they consider necessary. But in no case should the value of debentures outstanding exceed the outstanding amount under mortgages given by the borrowers and over which the debenture holder has a floating charge. For the success of the debenture issue we do not consider a special guarantee of the principal by Government is required. We agree with the recommendations of the Royal Commission on Agriculture and of the Registrars' Conference that the best help that the

Government can render in this connection is to guarantee the interest on debentures for the whole period of their currency. We further agree that these debentures, the interest of which is guaranteed by Government as recommended above, should be included among trustee securities provided Government is satisfied that adequate arrangements have been made by the bank for the redemption of these debentures at regular intervals. If in any province it becomes necessary, and appears to be more advantageous for the movement, for the Government to purchase debentures of a certain value we are also in favour of such form of State assistance.

222. We contemplate that if our recommendations are accepted, the debentures should be issued by a central institution called the Provincial Land Mortgage Corporation and that the actual sale of debentures should be made not only by the Provincial Corporation but also by primary land mortgage banks which may be called district mortgage banks and which should operate over fairly large areas and must not be too small. The district mortgage banks should be entitled to obtain the necessary finance from the Provincial Land Mortgage Corporation against a transfer of the mortgage securities which should be available to the latter for issuing debentures. The Provincial Land Mortgage Corporation will be an institution entirely separate from the provincial co-operative bank. While short-term and intermediate credit would be dispensed by the primary credit societies with the help of central and provincial banks, long-term credit would be provided only by primary land mortgage banks with the help of a provincial land mortgage corporation. We are decidedly of the opinion that the provincial co-operative banks should not function, except as a temporary measure, as central land mortgage banks for the province and that there should be separate organizations of the kind we have proposed; but there is no objection, until the provincial land mortgage corporation is established in a province, to the provincial bank financing the primary land mortgage banks with long-term capital specially raised for the purpose. In Bombay, where the Provincial Bank has issued debentures to provide finance for co-operative land mortgage banks, a sinking fund has been created into which a payment has to be made before profits are arrived at. In the Punjab where the Provincial Bank has similarly issued debentures, the Bank has instituted under the terms of the trust deed a sinking fund to provide for the redemption of the principal of the debentures, to which is credited every pie of the profits of the Bank besides the interest accruing on the investment of the fund. This arrangement has resulted in the Bank not being able to build up a reserve fund or to pay any dividend to its shareholders. These two instances, we are told, partly influenced Madras in not adopting the Bombay and Punjab systems.

223. The management of the primary mortgage banks and that of the local credit societies should not overlap. When an application for a loan to a land mortgage bank is made by a member who is also a member of a credit society the opinion of the credit society should ordinarily be obtained in regard to the advancing of the mortgage loan, though the responsibility regarding the ascertainment of the financial standing of the applicant and the grant of the loans must rest with the land mortgage bank. While we agree that a certain amount of co-operation between the ordinary co-operative society and the land mortgage society will be of mutual advantage to both the institutions, we are convinced that the two classes of societies should work entirely apart and that the transactions of the ordinary society should not in any way be mixed up with those of the mortgage bank.

224. We are not in favour of permitting land mortgage banks to receive deposits ordinarily, like co-operative central banks. We are, however, attracted by the recommendation of the Central Provinces Provincial Banking Enquiry Committee for the institution of a provident fund scheme in land mortgage banks under which the borrower will be required to contribute annually a fixed sum to the provident fund on the basis of his ordinary surplus in a normal year and the instalment for repayment of loans which he might be paying to the land mortgage bank. That Committee was influenced in this recommendation by a desire to provide, in addition to credit facilities for long-term loans, simultaneous facilities for investment and the development of the thrift habit. In addition to the provident deposits, that Committee has also recommended that the land mortgage bank might accept deposits for not less than 5 years and that the bank might also issue savings certificates payable after 3, 10 or 15 years. As we have stated in a previous paragraph, loans of the land mortgage banks will, in the beginning of their career, be mostly for liquidation of old debts in regard to which it is necessary to provide for a long period for repayment. It will, therefore, be dangerous for the land mortgage bank to depend on these short-term deposits for financing the borrowers. While, therefore, the receipt of deposits and the institution of schemes for savings certificates may come with the gradual development of land mortgage banks, we do not think it advisable to recommend these measures for obtaining working capital for the banks at the present stage of development.

225. We now come to the vexed question of whether the land mortgage banks should be vested with summary power of recovery by foreclosure and sale without the intervention of civil courts. Most of the Provincial Committees are not in favour of granting this power to the bank. One of the reasons given for this attitude is that the loss to debtors which it might entail might prejudice the bank in the eyes of the public. The Bengal Pro-

vincial Banking Enquiry Committee consider that, apart from undue rigour to borrowers, the proposal would lead to laxity on the part of the management of the banks in scrutinizing the security offered for loans and to carelessness in fixing the amount of the loan itself. In their opinion, consistent good management and proper fixing of the period of the loans would enable the land mortgage banks to avoid litigation. Some of the Committees are inclined to postpone consideration of this question until greater experience has been gained of the working of these banks as the limited experience available at present affords too narrow a basis for judging the difficulties to be faced by these banks or the provision that might be necessary. On the other hand, we are informed that, in the legislation which is now contemplated in Madras, provision has been made for powers of summary procedure for the recovery of arrears from defaulters. We consider that this question is of fundamental importance. In the absence of special legislation, the primary land mortgage bank will have to institute a suit in the civil courts for the recovery of the debt or it may institute it before an arbitrator appointed by the Registrar of Co-operative Societies. The elaborate provisions of the Transfer of Property Act and the Code of Civil Procedure will have to be invoked for obtaining and executing mortgage decrees by the co-operative land mortgage banks and the time and cost involved in the process will considerably hamper the operations of these banks and react adversely on the market for the debentures issued by them. In view of these reasons the Townsend Committee on Co-operation in Madras recommended, in accordance with precedents in other countries, that the land mortgage banks should have the power of bringing mortgaged properties of defaulting mortgagors to sale without resort to civil courts. This power is necessary to make the debentures a popular and liquid form of security, and until it is given, the attempt of the mortgage banks to derive their working capital by debenture issues will not meet with success. At the same time, we recognize that the right of the aggrieved party to question in the civil courts the action of the bank should be fully safeguarded. We further recognize that provision should also be made to safeguard properly the interest of the mortgagor and not to contravene the provisions of the Civil Procedure Code in regard to the sales of mortgaged property. We, therefore, definitely recommend that the power of foreclosure and sale by the land mortgage bank without recourse to civil courts should be given to the land mortgage bank subject to the above safeguards. We do not attach much importance to the suggestions that such a power would weaken the responsibility of the management or make the mortgage banks unpopular with the public. In some countries foreclosure is not permitted unless the outstanding debt bears a substantial proportion to the value of the mortgaged property. We consider that this salutary safeguard should also be included in any legislation in connection with co-operative land mortgage banks in India.

It is apprehended that the exercise of the power of recovery by foreclosure and sale without the intervention of civil courts which we have recommended above might prejudice the title of the debtor's co-shares or the prior claims of other creditors. We have fully provided for this difficulty by allowing every aggrieved party the right to question in the civil courts the action of the bank and take any further steps that he may be advised to take in order fully to safeguard his rights.

226. A similar provision connected with the insolvency law, with the same end in view as that discussed in the preceding paragraph, seems to us to be necessary. We recommend that the law should be amended so as to give greater protection to the land mortgage banks against avoidance of mortgage by the unsecured creditors of the insolvent.

227. We may in this connection refer to an important point raised by the foreign banking experts which we have ourselves very carefully considered, namely, the operation of the Land Alienation Acts which makes it impossible for the lender to secure the right to a free sale of the land which through default of the mortgagor may have to be taken over by him. Land mortgage banks are institutions for the purpose of lending monies for long-term investment on the sound and realisable security of agricultural land in order to enable the agriculturist to secure the advantage of cheap money. Where the land is transferable without any legal or customary impediments it will naturally form a valid security, but where the policy of the State has placed impediments against such transfers, the credit of the cultivator is adversely affected. The policy of preventing the easy transfer of land so as to retain it in the hands of the agriculturist or the classified agriculturist has so far been declared or enacted in the Punjab, and certain parts of the Central Provinces, the United Provinces and the centrally administered areas. The experience gained has been summarized by the Provincial Committees in their reports and is briefly as follows :—

Central Areas.—These Areas are protected by special legislation on the lines of the Punjab Land Alienation Act. It has affected adversely the credit of the agriculturist with the non-agriculturist money-lenders though at the same time it has been of great use in restricting borrowing for wasteful purposes. The result is that the agriculturist lender is replacing the non-agriculturist lender in the rural areas to an appreciable extent and the tendency is noticed whereby the agriculturist with a surplus invests it in purchasing land or in advancing on mortgage of land with a view to purchasing eventually more land instead of investing his surplus in capital improvements on land or in intensive farming. The Committee have, therefore, urged the protection of the small peasant proprietor against the bigger agriculturist with a view to

diverting the rural savings to a more profitable channel of investment.

The Central Provinces.—The Gonds are the only tribes to whom the Land Alienation Act applies. The credit of these tribes has shrunk somewhat since the enactment of the law. Moneylenders are also springing up amongst these tribes. This Act, in the opinion of the Committee, operates to perpetuate the backwardness of this class of the population.

The Punjab.—The Act hampers the operations of the non-agriculturist rural moneylender and gives the agriculturist moneylender a predominant interest in usufructuary mortgage business of the province. The greater freedom of the agriculturist moneylender enables him to advance a higher proportion of the value of the mortgaged land than the non-agriculturist lender. This is useful in the case of borrowers who understand the use of credit, but is very detrimental to the interests of the other borrowers. The rates of the non-agriculturist moneylender are enhanced and his loans are restricted, while the agricultural moneylender, who is also a big landlord, is taking advantage of the Act to add to his land at the expense of the peasantry.

The United Provinces.—The general effects of the Bundelkhand Land Alienation Act are also similar. There has been a reduction in the supply of credit and an increase in its price which has led directly to a fall in land values. The non-agricultural moneylender has been replaced to a considerable extent by the agricultural moneylender and the richer landlord has increased his possessions at the expense of the poorer. On the whole it is doubtful whether the Act has benefited the tenant.

In addition to these Land Alienation Acts, there are various restrictions on free alienability of land in several Tenancy Acts in force in many of the provinces.

228. Reviewing these experiences we are of opinion that, from a purely banking point of view, it is necessary that steps should be taken to remove all impediments to the free transfer of lands. We recognise, however, that other considerations are involved and we recommend that the Provincial Governments and their Legislatures should properly weigh the various considerations in shaping their policy. While this recommendation is general and is intended to improve the credit of the agriculturist, a special provision in regard to land mortgage banks is necessary in those provinces where Land Alienation Acts are now in force. It will not be possible for the land mortgage bank to obtain its working capital from debenture issues unless the agricultural land which is the security at the back of these debentures can be freely sold in case of default in payment of principal and interest by the borrowers from the bank. Moreover, the

double object of preventing the free mortgage and sale of agricultural land, and the provision of credit for the economic benefit of the agriculturist through co-operative land mortgage banks, cannot easily be achieved. If there are restrictions on the alienability of the land for the recovery of dues in the case of one class of members while the land of the other class of members can be freely sold for such recovery, the essential feature of co-operation, namely, equality of the status of members, will be sacrificed. In view of these difficulties we recommend that an alteration should be made in the Land Alienation Acts,—all legislation which restricts the sale or mortgage or other forms of alienation in the several provinces is included in this expression,—which would give to the co-operative land mortgage banks the right to take possession of land through foreclosure on default of the payment of the instalment of the loan and to sell it. The sale may be restricted to the agricultural classes according to the provisions of prevailing legislation and no question of policy in regard to preventing expropriation of these classes is intended to be touched by this particular recommendation.

229. The question of establishing an All-India Central Land Mortgage Corporation has been considered by us. We do not think that there is at present any need for such an institution, though when land mortgage banks are started in large numbers in the various provinces and when the provincial land mortgage banks in the provinces feel a real need for a financing and balancing centre it may be necessary to reconsider this question.

Commercial Land Mortgage Banks.

230. Specialization in banking spheres is now a common feature in most countries. Generally speaking, land mortgage banking, co-operative banking and industrial banking are being developed on a specialized basis. The most outstanding example of a joint stock land mortgage bank is the *Credit Foncier de France.* It enjoys certain legal privileges granted by statute and is supervised by the Government. Since 1920 it advances sums up to 40,000 francs repayable in 25 years at very low rates of interest. It acts as an apex bank for regional mortgage banks somewhat in the same manner as the Bank of France does for the commercial banks of the country. In Japan also there is the system of commercial land mortgage credit. The Hypothec Bank of Japan (Nippon Kwangyo Ginko) which was founded in 1895 has specialised in making long-term loans redeemable within a maximum period of 50 years on the security of immovable property. The Parker Willis Commission of the Irish Free State recommended the establishment of a big agricultural credit corporation with a capital of £500,000, the unsubscribed portion of which was to be taken up by the State and the commercial banks. In England, as a result

of the reports of the Committees set up by the Ministry of Agriculture and Fisheries to investigate into the problems of rural credit, the English Mortgage Credit Corporation was set up by the Agricultural Credits Act of 1928. The Mortgage Company formed under Part I of the Act is called the Agricultural Mortgage Corporation, Ltd., and the leading joint stock banks of England, namely, the Bank of England, Barclays Bank Ltd., District Bank Ltd., Glyn Mills & Co., Lloyds Bank Ltd., Manchester and County Bank Ltd., Martins Bank Ltd., National Provincial Bank Ltd., Westminster Bank Ltd. and Williams Deacon's Bank Ltd., are the share-holding banks in this Corporation. The Ministry of Agriculture and Fisheries with the approval of the Treasury is authorized to advance up to an amount not exceeding £750,000 for the purpose of establishing a Guarantee Fund. These advances are free of interest for a period of 60 years. The Minister is empowered also to contribute £10,000 towards the cost of the administration of the Corporation. The Treasury is empowered to procure the under-writing of the debentures up to a sum not exceeding £5,000,000 and may itself subscribe to an amount not exceeding one-fourth of the net issue or £1,250,000 in all. The advances by the Corporation on agricultural mortgages must not exceed two-thirds of the estimated value of the property and must be repayable by equal yearly or half-yearly instalments of principal and interest spread over a period not exceeding 60 years, the mortgage advance being thus automatically reduced. The Corporation may also make loans under the Land Improvement Acts. The debenture stock is trustee security. The Corporation commenced operations in January 1929 and has already transacted a very large volume of business. (See pages 439-442 of the "Practice and Law of Banking" by Sheldon, Edition 1930). The second part of the Act enables chattel mortgage on farm crops and live-stock being created in favour of joint-stock banks.

231. The Royal Commission on Agriculture have given a brief account of the origin and subsequent history of the Agricultural Bank of Egypt.* This Bank was established in 1902. Advances were made by the bank to small farmers and were of two kinds, one up to £20 each for a period not exceeding 15 months without mortgage security, and the other not exceeding £300 each for not more than 5½ years against a first mortgage. Interest was limited to 9 per cent and recoveries were made, together with the Government land tax, by the official village accountants in return for a commission of one-half per cent. paid by the bank. The Egyptian Government undertook to provide in any year such sum as might be necessary, after meeting all present claims and exhausting the reserve fund, to make up a profit of 3 per cent on the capital invested in loans. The Government also guaranteed interest at 3½ per cent on £4¼ million of bonds issued by the bank. In four years the

* Report of the Royal Commission on Agriculture, para. 357.

bank advanced about £10 million, but over-borrowing and outlay on unproductive expenditure led to the failure of the scheme of cheap advances and a policy of foreclosure on the mortgage, with the sale of the land, was widely adopted against persistent defaulters. With the passing of the "five-feddan" law in 1912, the maximum limits for the two classes of loans were raised to £200 and £1,000 respectively and the period for the latter class of loans was also raised from 5½ to 20 years. The Royal Commission add that cheap long-term credit to small cultivators is a blessing only where the cultivator is possessed of the knowledge and strength of character required to induce him both to limit his borrowing within his repaying capacity and to apply the borrowed money to productive purposes.

232. Dawson's Bank in Burma, which is a commercial agricultural bank and operates in the Irrawaddy delta is the only important instance of an agricultural bank on a joint stock basis in this country. The Royal Commission on Agriculture have dealt with the working of this Bank and the causes of its success. (*Vide* paragraph 422 of the Royal Commission's report). The Burma Committee have made a very definite recommendation in favour of well-planned joint-stock land mortgage banks for the benefit of larger land owners who are not served by the co-operative land mortgage banks which are essentially intended for the small scale cultivator. The Committee say: "Joint stock land mortgage banks have succeeded in many countries in supplying long-term credit to substantial farmers and are needed to do this work in Burma. But joint-stock land mortgage banks have nowhere succeeded in dealing with small peasant proprietors. Sooner or later they confine their dealings to more substantial classes".

233. The need for such mortgage institutions is particularly felt in provinces where the permanent settlement prevails and where the estates (*zamindaris*) represent large investments of capital which are not employed in other directions owing to the security of the yield obtained from investments in land under the permanent settlement and the absence of a similar security of return from investments in the fields of industry and commerce. At present, the landowners in Bengal, as a rule, obtain credit from indigenous bankers, money-lenders and loan offices on mortgages. The rates of interest and terms of repayment insisted on by these agencies are, however, onerous. Land has thus been deprived of its proper credit value and it is difficult to raise funds for utilization in productive channels connected either with the development of the estates or with other lucrative industry or trade.

234. Indeed, the Bihar and Orissa Provincial Committee have recommended the establishment of a land mortgage bank for that province under Government control and with capital initially supplied by Government, for the redemption of debts of the landlord

class and for financing their long-term credit requirements. The Committee contemplate the ultimate reduction of Government control to a minimum by requiring all borrowers to take up a number of shares bearing a fixed proportion to their borrowings and thus giving them a voice in the management of the bank. They also lay considerable emphasis on the necessity for associating the officials engaged in land revenue administration with the Board of the bank, as the experience of these officials will be of the greatest possible use in supervising the valuation of security and in judging the general credit-worthiness of the borrowers. They have proposed that the bank should have its head office at the headquarters of the province and branches at each of the other four divisional headquarters.

235. We recommend the development of well-organized joint-stock land mortgage banks in this country for the benefit of the numerous classes of landowners who cannot be adequately served by the co-operative credit organizations. We also commend for the consideration of local Governments whether, with a view to improving the economic conditions prevailing in their provinces, they should not take the initiative for the establishment of such banks and assist in ensuring the success of their operations, providing for this purpose a portion of the initial capital. Such action would be on the lines of that recently taken in England. We also agree generally with the recommendations of the Bihar and Orissa Committee. We contemplate that the working funds of such institutions should be derived from both shares and debentures. The limits up to which debentures may be issued should be fixed with reference to the conditions in each province. If, in any province, the provincial Government undertakes to guarantee the interest on the debentures issued by the bank, such debentures should be included among trustee securities on the same conditions as debentures of co-operative land mortgage banks. We do not desire to lay down any hard and fast rules in regard to the grant of loans as in the case of the latter, but we should like to lay down the principle that the loans should provide for a safe margin and the period and instalments of repayment should be fixed, as in the case of the co-operative banks, with reference to the repaying capacity of the borrower as judged from, among other things, the net income from the mortgaged land.

CHAPTER XI.

RURAL FINANCE—*continued.*

GOVERNMENT.

WORKING OF THE AGRICULTURISTS AND LAND IMPROVEMENT LOANS ACTS.

236. The Government provide but a very small share of the finance required by agriculturists by loans under the Land Improvement Loans Act and the Agriculturists Loans Act, which are merely enabling Acts empowering local Governments to advance loans from State funds and to frame rules governing the issue of such loans. Complete figures of loans made by the various Governments under each of the two Acts for a year are not available. In fact, one of the provincial Governments, namely Bombay, does not keep separate accounts of the advances under each Act. We give below the figures furnished by the Provincial Committees which illustrate the very insignificant part played by Government in the matter of supplying rural finance :—

(In thousands of rupees.)

——	Land Improvement Loans Act.	Agriculturists Loans Act.	Remarks.
Assam . . .	7	1,50	Average of five years.
Bengal . . .	93	14,44	Relating to 1928-29.
Bihar and Orissa .	70	8,34	Average of five years.
Bombay . . .	13,72 (in 1926)	9,57 (average of normal years)	Figures for each type of loan not separately available for all years.
Burma . . .	20 (ordinary year)	1,90 (average of ten years).	
Central Areas . .	1,70	1,58	Average of three years.
Madras . . .	12,70	11,54	Relating to 1927-28.
The Punjab . .	5,00	11,00	Average of five years.

237. The Royal Commission on Agriculture in India enquired into the working of these two Acts. They found that on the whole

the working of the two Acts was satisfactory, but that steps should be taken to make the benefits available under them more widely known to the cultivators. As regards the Land Improvement Loans Act, the Commission came to the conclusion that the rate of interest could not be reduced without involving the public finance in loss and that the period fixed for repayment was not too short. They did not find that in any province the work of land improvement was restricted by shortage of funds for loans under the Land Improvement Loans Act; but they proposed the appointment of a special staff to survey the possibilities of improvements. They were also satisfied with the working of the Agriculturists Loans Act. They held that the Act must remain on the statute book until the spread of thrift or of co-operative credit or of both rendered it obsolete. In regard to the working of both the Acts, the Commission found that delay in dealing with applications was a frequent cause of complaint, but they added that local Governments were fully alive to the defect. In view of what is stated below we think that the working of the Acts leaves much room for improvement and we are unable to share the general feeling of satisfaction expressed by the Royal Commission.

238. The Provincial Banking Committees have gone more fully into the working of these Acts. The rates of interest charged to individuals on loans under the two Acts vary from 6 per cent. to $6\frac{3}{4}$ per cent. in all provinces except Burma where the rate was as high as 12 per cent. till recently and now stands at 10 per cent. and Coorg where it is $7\frac{1}{2}$ per cent. In Madras loans for relief of distress are given at 3 per cent. and in Bijapur in the Bombay presidency, loans for sinking wells are given at a rate which is slightly higher than 5 per cent. The Provincial Committees generally have no recommendations to make in regard to the rates of interest.* The maximum period of repayment under the Land Improvement Loans Act is 35 years, but local Governments have power to fix the period by rules under the Act not exceeding the above maximum limit. The loans under the Act are in practice generally restricted to 20 years or less in all the provinces. The Central Provinces Committee report that though the maximum period under the rules is 20 years, in practice the period fixed for repayment rarely exceeds 5 or 6 years. The period allowed for recovery of loans under the Agriculturists Loans Act is generally shorter than that for loans under the Land Improvement Loans Act. The ordinary practice in some provinces is to recover the loans at the next main harvest or at latest after two main harvests. The period is longer in the case of special loans for purchase of seed and for relief of distress. We do not consider

* Two of our colleagues Mr. V. Ramadas Pantulu and Chowdhry Mukhtar Singh feel that for the beneficial administration of the Agriculturists' Loans Act the rates of interest must be lower than they are at present, specially in the case of loans dispensed in times of distress.

it to be a right policy to grant loans for improvement for a short period, though the rules provide that the loans might be given for a longer period. We think that normally loans for improvement should be spread over a period of years and that only in cases where the amount advanced is very small or the improvement effected is very temporary, the repayment should be required within a shorter period.

239. The Provincial Committees have made various suggestions which may broadly be classified as follows :—

(*a*) those which are intended to remove certain existing administrative defects, and

(*b*) those which are intended to improve and extend the benefits available to the cultivators under the Acts.

240. The more important of the administrative defects which call for remedy are summarized below :—

(1) *Delay in the disposal of loan applications and levy of illegal gratifications.*—We recommend that Provincial Governments should take steps to minimize these delays and to lessen the opportunities for illegal gratifications. We understand that the question of expeditious distribution has already been taken in hand by some of the Governments. We agree that distributing officers should be of some standing and should be on the look-out for cases of illegal exactions. It has been reported by the United Provinces Committee that, as a result of such exactions, the effective cost of a *takavi* loan has been estimated at not less than 25 per cent.

(2) *Insufficiency of loans.*—It is reported for example that loans for the purchase of cattle are insufficient for the purpose and it has been suggested that where funds are insufficient the advances might be restricted to a smaller number of recipients whose need is greatest and that their requirements might be satisfied. We support this suggestion. We similarly support the recommendation that loans should be given on a more liberal acreage rate as restriction to smaller amounts might involve resort to moneylenders at exorbitant rates of interest.

(3) *Strictness in realizations.*—We do not approve of any laxity in realizations, though we are in favour of liberal suspensions and remissions when necessity arises, such as failure of crops, etc. We agree with Provincial Committees that dates of repayment should be fixed with due regard to the dates of harvest and that cattle loans should be allowed to be repaid in two kists instead of in one. Similarly, we agree that the recovery of loans advanced in times of distress should invariably be effected in more than one instalment.

(4) *Unfairness in realizations of joint bonds.*—When joint bonds are taken, we recommend that (i) the amount due from each individual borrower should be entered separately in the bonds,

(ii) every attempt should be made to realize from each individual the amount so shown and (iii) joint liability should be enforced only as a last resort and should even then be apportioned as fairly as possible.

241. We give below certain suggestions made for improving and extending the benefits available to the cultivator from the two Acts :—

(1) The facilities available are not widely known to the public. We recommend that steps should be taken to remove the general ignorance about the facilities of credit and the procedure to be followed in securing these facilities.

(2) The Bombay Committee refer to the successful working of the Land Improvement Loans Act in the Bijapur district where a definite policy of agricultural improvements and famine protection is being followed. The details of the scheme are referred to in paragraph 107 of the Bombay Committee's report. We support the recommendation of the Bombay Committee that a similar policy should be followed elsewhere with suitable agencies for advice, guidance and supervision. We consider that the amount of loans granted under the Land Improvement Loans Act is very insignificant compared to the needs of the country. Although the Royal Commission on Agriculture reported that the work of land improvement was not restricted in any province by shortage of funds for loans under the Land Improvement Loans Act, the Bombay Committee have referred to the impression among witnesses that the amount that could be obtained as loans under the Act is insufficient and have further drawn pointed attention to the fact that Government have no well planned policy of promoting agricultural improvement by the grant of such loans. The Royal Commission have suggested various ways in which the possibility of improvement should be examined and suggested to cultivators. We cannot usefully suggest anything more than draw the attention of Provincial Governments to the recommendations of the Royal Commission and of the Provincial Banking Enquiry Committees.

(3) In backward tracts where the cultivators are not fitted to exercise the right of transfer of land and where co-operative credit societies cannot be successful and also in areas which frequently suffer from defective distribution of rainfall and water-supply, the free availability of facilities under the Agriculturists Loans Act has been strongly recommended. We support this recommendation which has also found favour with the Royal Commission on Agriculture.

242. There are various other detailed suggestions made by the Provincial Committees which we have not mentioned above. We have summarized them in the appendix to the Report and indicated our views on them. There is, however, one suggestion made by all

the Provincial Committees regarding the extent of financial assistance that is permissible or desirable under the Agriculturists Loans Act which we desire to refer to here. All the Committees are unanimously of opinion that the Act should be confined to times of emergency and stress and are not in favour of using the Act more extensively in normal circumstances. We agree that it is out of question for Government to provide the whole of the loan requirements of the agriculturists and that sporadic attempts on the part of Government to supply a fraction of such requirements are bound to meet with failure. We therefore recommend that the operation of the Agriculturists Loans Act should be generally restricted to relief of distress.

243. In respect of loans under the Agriculturists' Loans Act and the Land Improvement Loans Act we should like to draw the attention of Government to the weighty observations made by the Indian Famine Commission (1901) regarding the policy to be followed by Government in this matter. We quote below a few extracts from that Report :—

> "The importance of advances under Act XII of 1884 and Act XIX of 1883, is now generally admitted. It is necessary, however, to insist that these advances lose a great part of their value if they are not given at the proper time. Advances under the Agriculturists' Loans Act (XII of 1884) are most profitably given for the purchase of seed grain for the *rabi* harvest at the very commencement of the famine, and again for the purchase of plough cattle and seed in the months of May and June in anticipation of the *kharif* sowings. The periods during which advances may be most usefully distributed under the Land Improvement Loans Act (XIX of 1883) are less restricted; they may with advantage be given until the hot weather draws to a close; but we have already pointed out that they, as well as the advances under the sister Act, are specially required in the very earliest stages of the famine, as a measure of moral strategy and to put heart into the people * * * * *".
> (Para. 250).
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> * * * * *
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> "The real justification of the policy (of Government advances to cultivators) lies", said the Member in charge of the Bill, which became Act XII of 1884, "in the position of Government as the great landlord of the country, and the direct bearing which the welfare of the cultivator has on its revenues". But a wider view may be taken of the responsibilities of

> the Government and its interest in the cultivator as a citizen no less than as a contributor to its revenues justifies it in promoting his industry. The policy of the Takavi Acts should not be regarded as productive merely, but also as protective; and it is upon the protective aspects especially that we would insist. We recognize the progress that has been made since these measures were originally introduced, but we are convinced that there is both scope and need for a further extension of the policy in its protective aspect on lines of greater liberality. * * *". (Para. 311.)

We would add that the grant of advances under these Acts should not replace assistance for famine relief. The economic reactions of advancing loans under these Acts to the agriculturists who are affected by famine, instead of giving them relief under the Famine Relief Code, are too obvious to require emphasis.

244. The question of distribution of *takavi* loans through co-operative societies has also been discussed by the Agricultural Commission as well as some of the Provincial Committees. In Bombay, advances under the Land Improvement Loans Act can be made only through the agency of co-operative societies in villages where such societies exist. The Madras Committee have given some valid reasons against such distribution and the Assam and the Bihar and Orissa Committees have also, for reasons which are stated in their reports, not supported the Bombay practice. In the Punjab, no loans have been made by Government through co-operative societies in the last 5 years and the following recommendations have been made by the Provincial Committee in this connection :—

(1) No loans should be made by Government through the co-operative societies so long as there are sufficient funds in the co-operative movement.

(2) No loans should be made by the revenue staff to the members of a co-operative society without the knowledge and consent of their society.

(3) This consent should not be given if co-operative funds are available.

245. The co-operative credit organisations have normally sufficient funds to lend to their members and they do not require loans from the Government for the purpose. The societies can only lend to their members and it will be inadvisable to use the co-operative agency to advance loans to non-members on the responsibility of the society for their recovery and their proper application. We have, however, no objection to Government using the co-operative societies as mere agents for distribution. Moreover, it is not our intention that members of co-operative societies should not be

permitted to avail themselves of State aid under these Acts. In either case it must be clearly understood that the societies should not be responsible for watching the application of the loans or for their recovery.

Other forms of assistance to rural credit provided by Governments in India.

246. As stated in paragraph 46, and in Chapters IX and X, Governments in India also assist in various ways co-operative organisations for the supply of credit to the agriculturist. The amount of such assistance has, however, been small, mainly because these organisations have not so far been compelled to curtail their activities owing to a shortage of capital resources.

State and agricultural credit in other countries.

247. Rural credit in almost all countries in the world has received, and is receiving, the special attention of their respective Governments. It will suffice to summarise here very briefly the position in certain parts of the British Commonwealth and in the United States of America :—

(1) *Great Britain.*—In Great Britain, the Small Holdings and Allotments' Act of 1908 empowered the Government of Great Britain to take all the land which any individual owns in England and Wales in excess of 50 acres and to sell or lease it to a farmer or labourer. In order to help the small holders and labourers to purchase these holdings the Government through the County Councils have undertaken substantial financial responsibilities. The arrangement is thus described by Herrick in his Rural Credits* "For each small holding sold outright by the County, a purchaser must pay not less than one-fifth of the price in cash; one-fourth may be secured by a perpetual rent charge redeemable in the manner provided by the English laws; and the balance may be secured by mortgage to be paid off half-yearly in instalments of principal and interest or by terminable annuity. The longest credit which a County may allow on such a sale is 50 years." A large sum of money was borrowed by the Counties for the purchase and adaptation of these lands. The Scottish Board of Agriculture by the legislation of 1911 was empowered not only to adjust the rights of tenants on the land, but also to enlarge small holdings and to acquire estates for sub-division and allotment to small holders. The Government of Great Britain appropriated a large sum to be used by the Scottish Board of Agriculture for carrying on its work. The incorporation of "The Agricultural Mortgage Corporation Limited" in England under the Agricultural Credits Act of 1928 constitutes a distinct land-mark in the rural

* Rural Credits by Herrick, page 150.

credit organisation of England. These measures are the result mainly of the recommendations of the Agricultural Tribunal of Investigation and the Committees on Agricultural credit. We have already referred to them in Chapter X of our report.

(2) *Ireland.*—In Ireland since the establishment of the Board of Works in 1831, large amounts have been advanced to farmers for various beneficial purposes. Under the Land Purchase Acts an authority known as the "Estates' Commissioners" was appointed to enable farmers to purchase holdings. Mr. Herrick says that this body "is the greatest body not only in Ireland but in the world for using the aid and credit of the State for the purpose of enabling farmers to acquire real estate". The Land Purchase legislation to which this betterment of rural conditions is due comprises a series of Acts covering a long period of years from 1869. Four-fifths of the inhabitants of Ireland are farmers or are engaged in agricultural pursuits. Practically all farmers are now owners of the farms they till, or else occupy them at fair rents judicially fixed. Recently, rural credit in the Irish Free State was the subject of investigation by a special Commission. Its conclusions must be of special value to India as agriculture occupies an equally predominant position in the economic life of both countries. The Irish Commission says :—"We believe, that the needs of the present situation can be most effectively met by establishing an institution whose duty shall be first of all to finance the needs of Agricultural Co-operative Societies and enterprises. To this end we commend the establishment of a central institution, for which we propose the name "Agricultural Credit Corporation", whose duty it shall be to obtain from the public the funds needed for agriculture and to lend funds for agricultural undertakings".

(3) *Australia.*—In Australia, provision is made by the Commonwealth Bank (Rural Credits) Act 16 of 1925, for the dispensing of short term rural credit by the Bank. Section 7 of the principal Act which defines the general power of the Bank permits it to acquire and hold land on any tenure and Section 34 permits the Bank to invest any moneys held by it on loans on the security of land. This Act created a separate Department of Rural Credits as a part of the Commonwealth Bank. The new Department is provided with ample funds from various sources to finance agriculture. The Treasurer is empowered to lend to it up to £3 millions. In addition to this, 25 per cent of the net annual profits of the Note Issue Department of the Bank have to be paid into the Rural Credits Department up to a maximum of £2 millions. Besides these sources, the Bank is authorised to raise money for Rural Credits by the issue of debentures up to four times the sums lent by the Treasurer, moneys paid out of the profits of the Note Issue Department and the Reserve Fund of the Rural Credits Department. From all these sources, the

Department can make advances for periods not exceeding twelve months to other banks, co-operative associations, and corporations or unincorporate bodies specified by proclamation. The advances are made on the security of what is called "Primary Produce" which includes wool, grain, butter, cheese, fruits, hops, sugar and the like.

(4) *New Zealand.*—In the Dominion of New Zealand, a "Long Term Mortgage Department" was added to the New Zealand Bank by a special enactment in 1926. The Department has a special share and debenture capital The share capital was raised by the issue of shares to the share holders of the Bank, a third of which was bought by the Dominion Government. The Government get a dividend of 6 per cent. on their preferential shares, while the other shareholders get 7½ per cent. Debentures may be raised up to thrice the amount of the special share capital and their repayment is secured against the long-term mortgage loans, which are advanced to agriculturists out-of this working capital. The loans are advanced for periods extending to 36½ years on an amortization basis with interest at 6 per cent. *plus* provision for sinking fund.

(5) *South Africa.*—The Union of South Africa has a dual system of State Banks in relation to rural and non-rural credit. The "South African Reserve Bank" established by the Currency and Banking Act of 1920, does not itself deal with rural credit. But a "Land and Agricultural Bank" preceded the Reserve Bank, having been first established by the Union Parliament Act 18 of 1912. In the year 1926, another Act (40 of 1926) was passed to extend the powers of this Land Bank and to provide for the formation of a net work of what are called "Agricultural Loan Companies" and "Rural Credit Societies". This Act empowered the Central Board of the Land Bank to raise and use funds for effectively financing these agricultural loan companies, rural credit societies and individual farmers. Besides financing, the Central Board of the Land Bank renders many other valuable services to Rural Credit Organisations. For instance, Section 33 of the Act says that the Central Board of the Bank may lend to them the services of any of its officers or clerks and pay their salaries and allowances from the funds of the Bank and that the Bank may authorize any person approved by it to keep a warehouse or elevator, suitable for the storage of grain or other agricultural produce accepted by rural societies as security for loans advanced.

(6) *United States of America.*—In the United States of America, three distinct banking systems, namely, the Federal Reserve Banking System, the Federal Farm Intermediate Credit System and the Federal Farm Loan System, help agricultural credit. The sections of the Federal Reserve Act most important

to the farmers are those governing the eligibility of agricultural paper for rediscount. Section 13 (*a*) of the Federal Reserve Act provides, subject to regulations and limitations to be prescribed by the Federal Reserve Board, for the Federal Reserve Banks discounting notes, drafts, and bills of exchange issued or drawn for agricultural purposes, or based upon live-stock, and having a maturity at the time of discount not exceeding nine months, exclusive of days of grace.

The Federal Intermediate Credit System grants loans for periods not less than six months and not more than three years. The Intermediate Credit Banks are Government Institutions. Their establishment was made mandatory by an Act of the Congress and the Secretary of the Treasury was directed to subscribe to their capital stock in such amounts as called for by the directors of the banks, not in excess of 5,000,000 dollars for each bank. To secure additional funds, these banks are empowered to issue and sell debentures secured by agricultural and livestock paper.

The loans of the Federal Farm Loan System range up to 40 years. Funds are raised by means of debentures. The Government of the United States was authorised by the Congress (1) to subscribe to the share capital of these banks, (2) to take up debentures issued by these banks, (3) to pay for organisation expenses up to 100,000 dollars and (4) to make temporary deposits for the use of any land bank. Further, the Federal Land banks are recognised as depositories of public money. The debentures of these banks are exempt from federal, state, municipal and local taxes, and are trustee securities. The Federal Reserve System has also been authorised to buy and sell farm loan bonds.

Further, under the Agricultural Marketing Act of 1929, Congress has made available a sum of 500 million dollars for the constitution of a revolving fund to be administered by the Farm Board and to be utilised for the grant of loans to co-operative associations engaged in the marketing of agricultural commodities and food products thereof.

248. We have made recommendations in Chapters IX and X on the subject of the financial assistance that Government should give to co-operative organisations, including land mortgage banks. We have also indicated in Chapter IX the financial facilities that the Reserve Bank should give to provincial co-operative banks in connection with the financing of seasonal agricultural operations and the marketing of crops. In paragraph 72, we have recognised that a substantial development of rural credit in India can only follow, and cannot usefully precede, the uplift of the cultivator in other directions: and in Chapter IV we have advocated the adoption of a progressive and constructive agricultural policy by Government. We can only hope that as the needs of beneficent rural

credit are found to grow in this country, the Governments will not be found failing in their duty to provide additional resources, if necessary, in order to make such credit available to the widest extent.

CHAPTER XII.

RURAL FINANCE—*continued.*

COMMERCIAL BANKS.

249. We have already remarked that the joint-stock banks play little direct part, and the Imperial Bank much less, in the supply of credit to the agriculturists. These banks do not look upon agricultural finance as part of their general business. Banks, however, do finance agriculture indirectly by financing merchants who give advances to the small village dealers; and some banks lend direct on the pledge of produce and valuables and on mortgage. This indirect financing by intermediaries is, however, costly, as a price not always reasonable has to be paid for it. A few banks lend to landholders and to the more substantial cultivators.

250. The Bombay Committee have reported that the Imperial Bank of India has recently begun in the Bombay Presidency to finance big landlords on personal security with sureties, or on the security of produce or of gold.* The Managing Governor of the Bank has stated in his evidence that the policy of the Bank since its inauguration has been to encourage advances at reasonable interest against personal security with at least two good names supported, if possible, by the hypothecation of crops and also against the pledge of agricultural produce and gold. This policy, he observed, has not been limited to big parties and has been extended to all, the only condition being that the borrower is a reliable party and the security suitable in the opinion of the Bank. It is reported that considerable reluctance to pledge stocks was experienced due to a feeling that such a course entailed loss of credit and standing by the borrower; this feeling is, however, being overcome and is less in evidence each year. The rate charged by the Imperial Bank on loans secured on gold ornaments is 7½ per cent in the Punjab. The Managing Governor, however, admitted that the Imperial Bank is not organized to deal with the small cultivators and that in the majority of cases the assistance given is indirect; but he informed us that definite instructions had been issued to the Agents of the Imperial Bank in various parts of the agricultural districts that they should encourage the small man. Advances on gold ornaments for amounts as low as Rs. 100 are made by the Bank, but silver ornaments are not regarded as suitable security for advances. In reply to a request for some comparative statement showing the figures of the Bank's assistance to the agriculturists in recent years by direct and indirect advances, we were told that

* Bombay, para. 83.

it was impossible to analyse the assistance given to the agriculturists in this way with any degree of accuracy. The Punjab Committee have mentioned that the Imperial Bank has 34 outstations in the Punjab where advances against produce are negotiated and attempts are made through the godown-keepers at those places to establish contact with local dealers of agricultural produce. Demand drafts arising from movement of produce are also purchased by the Bank's branches. The United Provinces Committee have given a detailed list of the items of indirect assistance given by the Imperial Bank to agriculture. They are: (1) advances against produce to approved commission agents and dealers at all places where the Bank is established at rates varying from 7 to 7½ per cent. based on the official bank rate, (2) financing the movement of produce from the *mandis* to the consuming centres, chiefly by the purchase of demand drafts representing the produce despatched from approved customers, (3) the financing of the movement of produce from the distributing centres to the exporting ports by purchase of drafts and telegraphic transfers drawn on port towns at low rates, (4) loans against gold ornaments at 7 per cent, which are, however, not popular in the United Provinces among the agriculturists. We understand that this description of the activities of the Imperial Bank applies more or less to other parts of India.

251. Among smaller banks, we understand that in the Punjab the Lyallpur Colony Bank with a working capital of Rs. 6 lakhs does 50 per cent of its business with agriculturists and that the Rajwara Bank is experimenting in this direction. In Burma, the Dawson's Bank Ltd., is the only bank organized on western lines which works as an agricultural bank. It does not, however, lend for indefinitely long periods, and of its advances amounting to nearly Rs. 70 lakhs, 35 to 40 per cent. are given as crop-loans. The principal advances are made to owners of considerable estates, some of whom have a paddy mill or carry on a large trade in paddy. In fact, the principal function of the Rangoon branch of this bank is the collection of deposits for lending in rural areas. In the United Provinces there is a small joint-stock bank in Meerut, which besides receiving deposits, dealing in *hundis* and generally carrying on the ordinary business of a joint stock bank, specialises in financing agriculturists on the security of mortgage bonds. This bank has advanced no less than Rs. 35,000 in a single village on land mortgages, though for certain reasons connected with recent tenancy legislation, the profit on such loans has, we are told, been so much reduced that the bank has suspended or greatly reduced this part of its business. In the Central Provinces, the Berar Bank Ltd., with a paid up capital of Rs. 68,200, is said to be doing money-lending business direct with agriculturists. It advances loans on promissory notes on the security offered. About 20 per cent of the bank's clients are said to be agriculturists, and the maximum period of loans to agriculturists is said to be

three years. Its sphere of operation is, however, limited by its very limited resources. In Bengal the chief business of joint-stock banks at present is discounting of *hundis*, opening of cash credits and granting of loans against various kinds of securities mostly stock exchange shares and, very rarely, stocks of agricultural produce. In Bihar and Orissa, the smaller joint-stock banks are really loan offices, advancing money to the professional and agricultural classes at high rates of interest from 12 to 18 per cent or even 22 per cent. The bigger banks perform the usual functions of commercial banks, financing trade and to a smaller extent industry. In Madras some of the joint-stock banks give advances on gold, on produce and immovable property and *hundis* and also on pronotes with or without joint security. The rate of interest on advances against jewellery by one bank is said to be 9 per cent and on joint loans 10 per cent.

252. We have elsewhere recommended that commercial land mortgage banks on a joint-stock basis might be established to advance loans to larger cultivators who can give adequate mortgage security. In regard to the smaller cultivators with small holdings and with unsound ideas of borrowing and use of credit, we do not think that joint-stock banks can play any considerable or useful part. What the Indian ryot wants is controlled credit and this can only be supplied by co-operative societies. In one direction, however, joint-stock banks can do some useful service. If they would liberally extend the system of advances against precious metals including ornaments, the fairly well-to-do among the Indian cultivators would be saved to some extent from the clutches of the money-lender.

253. We may here mention that we have been informed by one of the foreign banking experts that even in western countries, in spite of very developed branch banking, sometimes the commercial banking system becomes slower the nearer it comes to the agriculturist, and it stops entirely at the outskirts of the agricultural line. In Germany, for example, there is practically no branch of the larger banks in any town with less than 10,000 inhabitants, which shows that the business done by the banks with the smaller agriculturist is unimportant; there are a great many large agriculturists, and these get credit from the commercial bank but only to a very small extent and even then only when the credit required is not a permanent one. On the other hand, as pointed out in paragraph 69, in some of the western countries, especially England, a very large volume of rural credit is provided by the commercial banks. But as stated in that paragraph, there are special reasons in India which stand in the way of ordinary commercial banks providing any substantial amount of rural credit. Some of the factors which affect the security that the agriculturist can offer against loans obtained by him have already been

dealt with in chapters IX and X. Certain other factors bearing on the same aspect of the problem are dealt with later on in chapter XIX.

Loan Offices—Bengal.

254. While in the other provinces joint-stock commercial banks were started in the sixties and the seventies of the last century, the development in Bengal was initially along the line of land mortgage banking. The first loan office was founded in 1865 and on the 31st March 1929 there were 782 loan offices at work, out of which only 26 were in Calcutta and the rest in the mofussil. Their total working capital was about Rs. 9 crores. The paid-up capital is generally small. Out of 782 loan offices, only 13 have a paid-up capital of Rs. 1,00,000 or more. The percentage of reserve fund to paid-up capital is very low in the case of most of the loan offices of recent origin. No loan office has issued debentures; funds are attracted by deposits only. The rates of interest for deposits vary from 4 per cent for short deposits to 8 per cent for 7 years' deposits. Usually the longest period for which deposits are received is 5 years. The Bengal Committee refer to some undesirable features of new loan companies, such as touting for deposits on which very high interest rates are offered. In some cases deposits have been accepted at 15 per cent. We are told that the authorities of a newly started loan office in Mymensingh were anxious to have a deposit of Rs. 10,000 at 24 per cent. per annum.

255. The main business of the majority of the loan offices is to lend money not only to *zemindars*, but also to actual cultivators. They rarely finance trade or industry. A few finance tea gardens. Loans are given not only against mortgage and pledge of ornaments but also against personal security. The older companies charge rates of interest varying from 12 to 18 per cent in the case of secured loans; on unsecured loans, the rate is higher. The rates of interest of the newer companies for secured advances vary from 12 to 56¼ per cent and for unsecured advances from 12 to 112 per cent. The greater proportion of loans is advanced against personal security. There have been cases in which the same person has borrowed from three neighbouring offices against personal security.

256. There is a wide-spread misgiving as to the likelihood of their failure under present conditions of general trade depression, as they have no reserve fund worth the name. 17 mofussil loan offices went into liquidation during the period 1914-1928. There are too many small offices and their rapid growth needs regulation. The Bengal Committee hold that the true remedy in the case of existing institutions is amalgamation, but that it is difficult to suggest any

practical means of compelling the offices to amalgamate. They, however, recommend that—

(*a*) For new offices a minimum subscribed capital of Rs. 50,000 and a minimum paid-up capital of Rs. 25,000 for small banks and loan offices should be prescribed.

(*b*) For the existing offices having a lower paid-up capital there should be legislation on the lines of section 4 of the Indian Life Assurance Companies Act requiring a deposit of securities with Government of an amount by which their paid-up capital falls short of Rs. 25,000.

(*c*) No bank or loan company should be registered in future with authorised capital exceeding four times its subscribed capital.

(*d*) No loan office should in future make advances against its own shares, which is now the general practice among loan offices.

(*e*) At least 25 per cent of the profits should be taken to the reserve fund until it equals the paid up share capital.

(*f*) For investing their reserve funds, loan offices in the mofussil should be allowed to open post office savings bank accounts and should have the same facilities as regards withdrawals as the co-operative societies. The maximum holding of postal cash certificates in the case of the mofussil loan offices should be raised to Rs. 20,000, but no change should be made with regard to the accrual of interest on such certificates.

(*g*) The existing banks should be required to draw up separate balance sheets and profit and loss accounts for banking and subsidiary businesses. The memoranda of association of new companies should be closely scrutinized and registration refused with a view to preventing the evil of combination of business with banking. On the other hand, all such institutions should be regarded as banks entitling them to all the privileges of banks.

(*h*) The balance sheet should give more details than at present. Window-dressing should be prevented as much as possible by prescribing a fixed date for the closing of all books.

(*i*) A special Act embodying the above-mentioned provisions and arming the Registrar of Joint-Stock Companies with wider powers of enforcing the regulations is necessary.

257. We agree generally with the above recommendations subject to certain minor modifications. We do not think it is advisable to allow a loan office to have an authorized capital up to four times its subscribed capital. In our opinion, the subscribed capital must amount to at least one half of the authorized capital before the loan office is allowed to commence its business. We consider that the minimum of 25 per cent for allocation to the reserve fund is rather high and would recommend that at least ten per cent of the net profits for the year should be taken to the reserve fund. We also recommend that not more than 10 per cent dividend shall be payable unless 25 per cent of the net profits for the year is carried to the fund. We were inclined to suggest that the recommendations in the two preceding sentences should have effect until a reserve fund is built up equal to the paid-up share capital; but in view of the comparative smallness of the capital of the loan offices and the large amounts they obtain as deposits, we think it salutary to recommend that in the interests of the depositors the compulsory allocation of 10 per cent of the net profits to the reserve fund may well be continued permanently. We consider that any surplus of reserves left after investing in post office savings banks and postal cash certificates should be invested in trustee securities. The difficulties regarding the purchase and sale of such securities which have been referred to in the Bengal Committee's report may be got over by utilization of the Imperial Bank of India which gives free transfer facilities in connection with such purchases and sales.

258. As regards the Bengal Committee's recommendation that a special Act should be passed to regulate the operation of loan offices, we have elsewhere recommended that all joint-stock banks should be governed by a special Bank Act. Such of the loan offices as are well established are really carrying on joint-stock banking and should automatically come under the provisions of that Act. As regards the others, we agree that the necessity for a separate Act has been made out and we recommend the enactment of a measure to be called "the Bengal Loan Offices' Act" on the lines suggested above. A period of five years should be allowed to enable existing institutions to take steps to comply with the provisions of either the special Bank Act or the new Loan Offices Act. In both cases, the institutions should be prohibited from combining trading with their banking business. The loan offices governed by the Loan Offices Act should also be prohibited from dealing in real properties other than those that come into their hands in the course of their business. It should further be clearly provided in that Act that no auditor should be eligible for appointment to audit the accounts of loan offices if he is either directly or indirectly interested in the management of any loan office or is interested in any concern indebted to the loan office.

259. In making these recommendations, we have been guided by the principle that the banking development of the country should

proceed on the basis of existing institutions as much as possible. We are convinced that the loan offices in Bengal are peculiarly adapted to meet the requirements of the small *zemindars* and the land-holding and agricultural classes in that province. To ensure the re-organization and development of these institutions on sound lines, we also think it necessary that a special officer should be appointed by the Bengal Government for the first few years at least of the working of the Loan Offices Act, whose duty should be to supervise and to give sympathetic guidance to them.

260. One of our colleagues, Mr. N. R. Sarker, has submitted a note in connection with the position to be occupied by the loan offices hereafter in the Indian banking sphere, which is printed as an annexure to this chapter. We recommend that the Government of Bengal and the Provincial Legislature should examine Mr. Sarker's note fully with a view to devise a scheme to render to the loan offices such assistance as may help them to improve their present position and bring them into line with the other sound and well organized members of the banking system. We are of opinion that any steps that can feasibly be devised to increase the utility of these institutions with a view to extending their operations in the field of commercial banking deserve the fullest support of the provincial Government.

Nidhis and Chit Funds in Madras.

261. There were 228 *Nidhis* in the Madras Presidency on the 31st March 1929, specially in the Southern and West Coast districts, of which 123 were in Coimbatore district alone. The objects of these *Nidhis* are described as the facilitation of savings, the relief of members from old debts, deliverance from usury and accumulation of a fund for special loans and for various other purposes, *e.g.*, ceremonials, maintenance, purchase of jewels, house-building. These loans are given on good security to members but in some cases, if there is a surplus, loans are also given to outsiders. The receipt of deposits is not usually a primary object, the funds being raised chiefly by subscriptions to share capital.

The characteristic of a large number of *Nidhis* is that of a terminating society of members who contribute monthly an amount which is available for loans to members. But this characteristic has now largely disappeared. In some *Nidhis* monthly subscriptions to share capital has been replaced by a recurring deposit and a fixed small share capital which may or may not be withdrawn.

The lending rates of the *Nidhis* are generally low. But they levy high penal rates payable on overdue amounts and much of the profits arise from this source of income. The newer type of

Nidhis which are developed specially in the Coimbatore area, charge higher rates on their loans and the rates of 12 to 15 per cent are not unusual among them.

The share capital of these *Nidhis* is about Rs. 2½ crores. Their deposits and reserve funds amount to another 1½ crores. Thus all the *Nidhis* handle about Rs. 4 crores.

All these *Nidhis* are registered under the Indian Companies Act. Some of them are now carrying on the business of banking and are indistinguishable in most respects from an ordinary small joint-stock bank.

The articles of association of these *Nidhis* are in conflict with the provisions of the Indian Companies Act in respect of the withdrawability of the share capital. The Madras High Court have held that the liability of their members continues even after the withdrawal of share capital, because share capital cannot be withdrawn under the Indian Companies Act without the consent of the Court. The Madras Committee say that many of the *Nidhis* are excellently conducted, while some are open to very serious criticism.

There is a great deal of variety in the constitution and working of these *Nidhis*. They partake of the nature of mutual benefit societies and joint-stock banks and sometimes of the Chit funds (*vide* para. 263) which are mere loose associations of a small number of people.

262. The main questions that arise for our consideration are:—

(*a*) Should *Nidhis* be allowed to take withdrawable share capital?

(*b*) Should the members of these institutions be permitted to borrow on their share capital?

(*c*) If the *Nidhis* are allowed to obtain working capital in the form of share capital paid up in a number of small instalments, should members be compelled to pay a certain percentage on allotment of shares?

(*d*) Should the liability of the member be limited to the amount of the share money actually paid or in arrear in respect of the shares, or should his liability cease with the withdrawal of the share capital?

(*e*) Should they be allowed to open current accounts and permit their members and non-members to operate upon them?

263. The Chit funds have arisen from two legitimate demands in villages under conditions of defective credit arrangements, namely,

(1) the necessity for a lump sum to meet "some unusual" expenditure, and

(2) provision of a form of saving.

For the different types of Chit funds we invite a reference to paragraph 482 of the Madras Committee's Report.

While there are many properly run funds we are told that the system is open to abuse and is actually abused in a great number of cases. The Madras Committee consider that effective control will probably result in a number of the Chit funds suspending their business. They recommend that the control should take the form of registration which should be optional and that without a certificate of registration no civil court should entertain any suit on behalf of any Chit or a member of it.

264. We have carefully considered the recommendations of the Madras Committee and we have also examined the model rules of the English Building Societies on which the *Nidhis* are largely built. Our recommendations which follow in the main the practice of the English Building Societies are as follows :—

(1) The *Nidhis* and Chit funds in Madras should be controlled by a special Act of the Madras Legislature called the "*Nidhis* and Chit Funds Act";

(2) Such of the *Nidhis* as have evolved themselves into full fledged banks should come under the general Indian Bank Act if they so desire;

(3) The idea of the *Nidhis* transforming themselves into co-operative societies and coming under the Co-operative Societies Act is not favoured;

(4) But if *Nidhis* do not register themselves either under the Bank Act or the Madras *Nidhis* and Chit Funds Act and prefer to register themselves under the Indian Companies Act, they should fully comply with the provisions of that Act in regard to the withdrawability of share capital and other matters in respect of which their present practice is not in strict conformity with the provisions of that Act.

265. As regards the detailed provisions of the proposed Madras Act, we are of opinion that the *Nidhis* may be allowed to retain their characteristic features in the provisions of the legislation recommended above, especially in regard to the following points :—

(i) *Nidhis* should be permitted to take withdrawable share capital and to lend on their share capital as at present. In such cases *Nidhis* should not be allowed to take deposits or loans from outsiders.

(ii) *Nidhis* should not be permitted to trade.

(iii) They may be allowed to obtain working capital in the form of share capital paid-up in a number of small instalments and their members need not be compelled to pay a certain percentage on allotment of shares.

(iv) The liability of the members should be limited to the amount of share money actually paid or in arrear in respect of shares and should cease with the withdrawal of share capital.

(v) *Nidhis* may be allowed to open current accounts for members on condition that they maintain adequate reserves for payments on demand.

(vi) Adequate provision should be made in the Act for the proper audit and publication of balance sheets of *Nidhis*.

We also recommend that promoters of Chit funds should be licensed and the provincial Government should consider whether a property qualification should not be prescribed for the grant of such licences. Each Chit fund must be separately registered in accordance with the rules to be made under this new Act.

ANNEXURE.

Note by Mr. N. R. Sarker on Loan Offices in Bengal.

1. The loan offices, which are small joint-stock companies, are deeply rooted in the economic life of Bengal, and any picture of the present banking organisation of the province would be incomplete, and any scheme for the future development defective, without a proper understanding of the important role which these loan offices play in the economy of Bengal. They have attracted the savings of a large proportion of the middle class population, and such banking facilities as are available in the rural areas are largely due to them.

2. It is my opinion that these loan offices serve a useful purpose even as at present, by catering chiefly to the various needs of the middle class salaried people, and also of the agriculturists, and I think that they could be made still more useful if their operations were to be extended to trade and industry as well. Their methods doubtless require to be overhauled and brought into line with modern banking principles to a greater extent than at present, so that they might adapt themselves to new lines of business arising out of the needs of local trade, industry and agriculture. Their services might also be utilized in fostering banking habits in the people, thereby in turn, facilitating the establishment of various institutions designed to serve the special needs of different sections of the people.

3. The time has come when the loan offices should adjust themselves to the new conditions and growing requirements of the province. They should endeavour, wherever possible, to assume more and more the character of commercial banking institutions and take upon themselves mainly, if not exclusively, the task of financing the movements of internal trade. Some of them might well continue their present activities, such as lending to the agriculturists and the zemindars on the mortgage of land, but they will have to modify many of their methods, such as, for instance, lending for long periods out of short-term deposits. Again, some of them may well be expected to cater still more to the needs of the middle class and salaried people by undertaking functions analogous to those of the Building and Friendly Societies in Europe and America.

4. A study of the various credit needs of the people of the province impresses one with the desirability for development of the loan offices along these lines. The economic activities of the people, whether in the fields of trade, industry, or agriculture, call urgently for the support of adequate financial facilities. They demand special measures for the initiation of separate types of

credit agencies suited to the requirements of each class. There is need for credit institutions to assist the diverse economic developments; there is need for Agricultural and Land Mortgage Banks to help the agricultural class and encourage production from the land; there is need for Industrial Banks to assist in the foundation and growth of small Indian industries: and there is need for commercial banks to finance adequately the movement of goods. Further there is need for credit institutions which will cater to the consumptive needs, as opposed to the productive needs, of the people, thereby relieving their dependence on usurious moneylenders. All these requirements may be met effectually by a suitable reorganisation of the loan offices into specialised groups, determined by the credit requirements of their clients, the condition of their investments, and the extent of business available to them.

5. The immediate problem for solution, however, is how the present position of the loan offices may be strengthened and improved. For this purpose it is necessary to investigate the reasons underlying their difficulties. As a rule, the loan offices, except the very recent ones, conduct their activities with a reasonable degree of caution, maintaining a due proportion of capital and reserve in comparison to their total deposits; but, owing to certain local conditions, their loans have to be made mainly to middle class people and agriculturists, all of whom are directly dependent on agricultural prosperity for the liquidation of their indebtedness. Consequently during the general depression of the last two years, the position of the loan offices has become somewhat difficult, since many of them have invested a large proportion of their funds on the security of landed properties, mostly agricultural. Even where good personal security has been available, it has been found difficult to realise loan owing to the economic condition of the borrower being imparied by dependence on agricultural income.

6. The older institutions numbering about 400 which together command a working fund of approximately Rs. 7 crores, out of an estimated total of Rs. 9 crores for all the loan offices, follow, as a rule, an extremely cautious policy in investment. It is true that investments are not liquid but bad investments have been few. The investments, however, of even these older institutions have now become more or less "frozen" for the reasons stated above, and it is strongly felt that any measure devised to thaw the frozen assets of the loan offices would not only enable the loan offices to meet the demands of depositors but it would also give a great impetus to the development of commercial banking in rural Bengal by giving the loan offices an opportunity of re-organising their working methods on sounder principles.

7. These considerations suggest the need for a financing corporation, as a sort of "apex" institution. It would enable them to

convert their "frozen" assets into cash for investment gradually in more liquid forms of industrial and commercial securities, and it would greatly facilitate the desired re-organisation of the provincial banking system by inducing the gradual transformation of these loan offices into nuclei of a commercial banking system, of the urgency of which I am convinced. In endeavouring to estimate the total amount of funds that would be required to render this service, we should remember that it is not necessary nor desirable that all the loan offices should give up their land mortgage business in favour of commercial banking, and consequently, in such cases, no assistance would be needed. In other instances, again, the loan offices would themselves be able to realize, in a reasonable time, a fair proportion of their outstanding loans. Therefore, the total relief required from the proposed finance corporation may be estimated at Rs. 2 crores, as against the total invested funds of these loan offices estimated at about Rs. 7 crores. Even this amount would not be necessary all at once and the programme of relief may be spread over a period of four or five years, at about forty to fifty lakhs per annum.

8. The financing corporation may be floated with an initial paid-up capital of, say, Rs. 5 lakhs contributed mainly by the loan offices themselves. In addition, debentures of twenty times the amount of capital may be issued on the security of the loan offices. This initial capital may gradually be augmented by a contribution of 5 per cent. of the amount paid to the loan offices from the debenture issues, while again the enhancement of capital by this device may be made the basis of further debenture issues. The share capital and reserve funds of the chief loan offices of Classes I to IV (as described in paragraph 433 of the Report of the Provincial Committee) is just over Rs. 1 crore and these can easily subscribe 5 per cent of this amount without much difficulty. The cash in hand and with banks belonging to these classes is also about Rs. 1 crore. Even if there be any difficulty in their subscribing the initial capital of the corporation in full, their influence over their clients and the high degree of popular confidence enjoyed by them would enable these loan offices to induce private investors to take up the unsubscribed portion of the shares in a little time.

9. It would be the duty of the corporation to scrutinise carefully the assets of the loan offices applying to it for advances, and of course it should lend only to those whose assets prove entirely to its satisfaction. It may lend to the loan offices on the security of their general assets, or take over specific assets and pay to the loan offices part of the amount lent by the latter against such assets and issue debentures on either of them. In the former case, the activities of the loan offices might be prejudiced by the fact that the would-be depositors may feel reluctant to entrust their money to a bank whose entire assets are under a first charge,

but in any case, there would be good security for those investing in the debentures of the Corporation. To make the debentures attractive, the interest may be as high as 7 or 7½ per cent. The Insurance companies, the exchange banks and successful Indian joint-stock banks can be made to interest themselves in the issues in the same way as in industrial or agricultural debentures, but within reasonable limits, and it should not be difficult to get the debentures taken up.

10. Assuming that the proposed rate of 7½ per cent. interest for the debentures of the corporation is accepted, as the rate of interest generally charged on secured loan made by the loan offices is between 12 and 18 per cent. (para. 439 of the Provincial Committee's Report), this would give ample margin for working expenses and declaring a suitable dividend to shareholders. It may even contribute towards reduction of interest rates on loans at the time of renewals.

11. Some assistance from the Government will be necessary to ensure the success of the financing corporation. They will have to take the initiative in starting the institution and hold a preliminary enquiry to satisfy themselves that the debentures proposed to be issued by the corporation are adequately secured. The Government may also render direct financial help by themselves purchasing certain blocks of debentures and they may also undertake the supervision of the working of the corporation to keep within sound and safe lines. This would naturally increase the confidence of the general public in the proposed institution.

12. One development that may be expected is that the financial corporation would be in a position to influence loan offices to re-adjust or re-organise their affairs, or effect amalgamations. Thereby, they could be led to develop into commercial banking institutions adhering strictly to canons of sound banking practice. The establishment of warehouses and the adoption of other devices calculated to develop a bill market as recommended by the Committee would help greatly in the process.

13. The loan offices would act as agents of the corporation for collecting interest and instalments of the loans on the security of which the debentures would be issued. They may also be used for popularising industrial and land mortgage debentures; in fact, if our proposals regarding the financing of agriculture and industry work out successfully, the loan offices could be made, so far as Bengal is concerned, to fulfil further a very useful function. The facilities proposed to be provided through the corporation would, with the development of fresh lines of investment, enable a large number of loan offices to find an expanding field for their activities in short term finance.

14. I do not overlook the fact that, in the initial stages at least, the loan offices may have some difficulty in financing trade and industry owing to lack of experience. Such a contingency is inevitable in the initial stages of any enterprise but much of the difficulty may be obviated by the careful study of recognised methods of commercial banking, by the appointment of a special officer to act as advisor, and by consultation and conference among the loan offices themselves. Fresh avenues will have to be explored for the employment of the funds of the loan offices increasingly in the financing of trade, and progress in this direction would be accelerated by the corporation having a special department for the encouragement of such activities.

15. The management of the loan offices lies at present in the hands of directors who are mostly lawyers. However competent the present directors may be in their own profession, they generally lack commercial and banking experience. If, therefore, the loan offices are to develop on commercial lines, it is highly desirable that their management should be associated also with traders, merchants and *aratdars* whose interests these banks should more and more tend to serve. This is necessary, also because such businesslike men at the head would be able to inspire confidence among the general public and would also tend to attract investments suitable for commercial banking.

16. It is probable that some of the loan offices would prefer to continue their present system of long-term investments in land. Though we have proposed elsewhere the formation of special land mortgage banks, with initial support from the Government, there can certainly be no objection to private joint-stock banks also undertaking similar activities. But, the experience of the existing loan offices definitely points to the inadvisibility of utilising short term deposits for these purposes. It should, therefore, be clearly laid down that those of the loan offices which may decide to adopt a policy of long-term credits should have a corresponding volume of long-term deposits from their clients. If necessary, they should supplement their own funds—paid-up capital and reserves—by the issue of long-term debentures.

17. In this connection, it is also necessary to consider the feasibility of linking these loan offices to the provincial joint-stock land mortgage bank which I have advocated and which the committee has accepted. By this method, such loan offices as may lack sufficient funds, and also have not raised the necessary fund by their own debentures, would be enabled to find the funds for both their old and new requirements. The financing corporation recommended here may be amalgamated with the joint stock land-mortgage bank proposed for the big landowners and others if and when found necessary.

18. We have yet to consider a further category. Some of the smaller loan offices that may not be able as separate units to

conform to the conditions of the proposed Loan Offices Act, may yet be fit to combine into larger units, thenceforward developing on the lines of commercial banks as visualised in the previous paragraphs. But, I am sure that there will still be a demand for facilities for wage earners, salaried men and middle class people, for purposes for which it is not possible for the latter to approach the commercial banks and which make it necessary for them to resort to money-lenders. I suggest that many of these loan offices might develop along new lines, and would do well to follow the lead of the Friendly Societies and Building Societies of England, America and the British Dominions, a short description of which may be useful.

19. The Building Societies in the countries mentioned, perform a very useful social function in that while encouraging the movement for thrift among the middle class population, they help the latter in building, purchasing and redeeming houses. The extent of the benefit which these societies confer on the community can be best realised from their popularity. In 1928, there were in the United States about 13 thousand such societies with a membership of 12 millions and assets of 8,000 million dollars, while in 1929, in England more than one thousand societies with members numbering about a million and a half had about £300 million as assets. The earlier building societies were usually formed on co-operative principles, but later on the ordinary joint stock form of organisation has gained in popularity. The loan offices of Bengal, have so long been carrying on functions somewhat similar to those of the Building Societies of the West, and they will very easily be able to conform to such laws and regulations as may hereafter have to be formed for the purpose.

CHAPTER XIII.

RURAL FINANCE—contd.

MARKETING AND MOVEMENT OF CROPS.

GENERAL CONDITIONS.

266. The fact that India itself is the main market for her agricultural produce makes the marketing problem a very important factor in rural finance. From the Provincial Committees' reports, it may be computed that the value of total agricultural produce of British India amounts roughly to Rs. 1,200 or Rs. 1,300 crores. The pre-war figure for 1913-14 is given as Rs. 1,100 crores roughly by Wadia and Joshi (*vide* Wealth of India, page 98). Out of it the value of the produce exported out of India amounts roughly to Rs. 200 crores, if coffee, tea, vegetables and fruits are included in agricultural produce (figures are taken from Trade Review from 1928-29). This proportion, however, between internal consumption and export appears to be lower than that given in the statement submitted by the Indian delegates to the World Economic Conference of 1927. According to this statement, India's "total exports represent only 1/11th of her total production" (*vide* page 63 of the Report of the Conference). Notwithstanding this dependence of the Indian producer almost entirely on the internal market, we find—and our finding has the support of the Provincial Committees and other authorities—that there is no "orderly marketing" in India and that the Indian producer markets his produce under very disadvantageous conditions. The Royal Commission on Agriculture which recently investigated the matter say at pages 388 and 389 of their report :—

> "From all provinces we received complaints of the disabilities under which the cultivator labours in selling his produce in markets as at present organized. It was stated that scales, weights and measures were manipulated against him, a practice which is often rendered easier by the absence of standardised weights and measures and of any system of regular inspection. Deductions which fall entirely on him but against which he has no effective means of protest are made in most markets for religious and charitable purposes and for other objects. Large "samples" of his produce are taken for which he is not paid even when no sale is effected. Bargains between the agent who acts for him and the one who negotiates for the purchaser are made secretly under a

> cloth and he remains in ignorance of what is happening. The broker whom he is compelled to employ in the larger markets is more inclined to favour the purchaser with whom he is brought into daily contact than the seller whom he only sees very occasionally.
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> The disabilities described in the preceding paragraphs can only be removed by the establishment of properly regulated markets and we hold that the establishment of such markets would confer an immense boon on the cultivating classes of India".

To the above catalogue may be added another disability, *viz.*, that even after prices are settled, at the time of weighment the price is still further cut down by refusal to take delivery on the ground that the quality is inferior. The Madras Committee refer to the complaint that the bulk of tobacco grown in certain districts in Madras is bought by one firm for its own use, and that the ryots are said to be suffering from various disabilities such as waiting interminably at the place where the tobacco is inspected and purchased, and being offered in the end prices not always reasonable. Dr. Thomas in a dissenting minute has said that the attempts of the Committee at getting information from the Tobacco Company proved futile.

267. The conditions of external marketing of India's agricultural produce are not less disquieting. Several witnesses have stated before us that the reputation of Indian agricultural produce is very low. Dr. D. Clouston, who was deputed by the Imperial Council of Agricultural Research to the British Industrial Fair, recently reported his impressions to the Council. In his report dated the 25th March, 1930, he states :—

> "The reputation of Indian agricultural products in the world's markets is low. The price paid by consumers in Europe for these products is based very largely on that reputation and this reacts unfavourably upon the price received by these cultivators who have improved the quality of their produce."

Dr. Clouston proceeds to point out that India's high grade products are not sufficiently advertised and that therefore some of the firms in European markets hold that India cannot produce high grade wheat and other products. He also gives facts and figures to disprove this false notion and pleads for better organisation. The result is that the efforts made in India to improve the quality of agricultural produce by the introduction of improved methods and improved strains of seed bear no fruit, as the producer of purer and better qualities does not get a better price in the

markets. The Royal Commission on Agriculture have stated the position in these words at page 398 of their report :—

> "The incentive to grow the improved varieties introduced by the agricultural departments is *pro tanto* diminished if the cultivator fails to obtain the full premium justified by their superiority over those ordinarily grown. Again, he has little incentive to market his produce in the best possible condition unless that condition is recognised in the price he gets for it."

268. The foreign banking experts have pointed out* the intimate relation that exists between the export market and the home market and have suggested that if steps are not taken to organize India's exports in such a way as to meet the modern requirements of world trade, there will be an inevitable reaction on the internal market to the great detriment of the cultivator. We are told that in other countries the banks engaged in the financing of the export trade render invaluable assistance by supplying their customers with information regarding the foreign markets and of the prevailing prices and that the existing institutions which finance the foreign trade of India which are almost entirely non-Indian have not taken any steps in this direction. Further even in articles like tea, coffee, and rice, in which India has a large export trade, we understand that there are no brands by which the Indian articles are known in the foreign markets. The defects due to want of standardization and organization are obvious.

269. These statements about the disabilities of the Indian producer in marketing his produce are more or less borne out by the several Provincial Committees' reports. A few extracts will suffice to illustrate the position.

Bengal.

The Bengal Committee have observed as follows in regard to lack of standards of quality :—

> "By far the greatest difficulty in marketing lies in the absence of definite standards of quality which often disorganises the jute market in Calcutta entailing enormous losses on the Indian merchants who import jute from the mofussil centres. Jute is generally classified into five grades or standards known as Nos. 1, 2, 3, 4 and rejections. But the specifications with regard to length, gloss, colour and strength appertaining to each grade are made to vary from year to year and sometimes even in course of one single season.

* Appendix I, Enclosure XIV.

> This variation in the specifications is stated to be brought about in order to depress the prices. Sometimes the prices are brought down by another means without altering the specifications. When the season for jute opens the mills or rather their purchasers start buying operations on certain agreed specifications as to the standards of the different grades, but after the season advances a little, purchases of the top grades are suspended by a concerted action, with the result that later in the season the quality of jute which could have been tendered according to the agreed specification against a higher grade has in fact to be tendered against lower grades, for it could not be sold otherwise. Several witnesses have estimated the loss of the growers resulting from this variation of grade specifications, as amounting to several crores of rupees. The loss which arises from such manipulation of standards falls no doubt on the Indian jute dealers in Calcutta in the first instance, but we think that it is partially shifted over to the cultivators as well."

They therefore proceed to recommend "that the standards should be made definite by some special legislation on the lines of the American Cotton Standard Act, and that any difference arising between the buyers and sellers should be settled by a Statutory Arbitration Board, including representatives of both the parties." The matter is dealt with in paragraph 287 of our Report.

Bombay.

The Bombay Committee point out that some of the practices in unorganized markets such as fixing prices secretly and reduction of prices on the ground of alleged inferior quality, act to the detriment of the agriculturist. The Committee also refer to the diversity of measurements which makes it impossible for a cultivator or merchant to know whether he is getting the same price as is paid to cultivators and merchants elsewhere.

The Punjab.

The Punjab Committee report that the ordinary market is dominated by the trader, and the cultivator has no voice in the control of market arrangements, no say in the fixing of market dues, no representation on market *panchayats* and little or no means of ascertaining outside prices. In both villages and markets the

cultivator is defrauded by the use of inaccurate weights and scales. As an instance, it is stated that 42½ seers of cotton are taken to be equivalent to a maund. The Provincial Committee also examined 1407 scales and 5907 weights and found that out of these 69 per cent of scales and 29 per cent of weights were incorrect.

United Provinces.

The United Provinces Committee enumerate the following defects in marketing: the use of a variety of local weights and measures, false weighment, the levy of a number of incidental charges and imposts, the absence of grading and secret settlement of prices. In paragraph 261 of their report they refer to the practice in a novel form of the well-known evils of cornering and dumping; they say that there is some evidence to show that exporting firms are occasionally guilty of dumping agricultural produce to facilitate purchase at lower prices.

270. More than one Provincial Committee have adverted to the fact that the agricultural produce is forced on the market at certain periods in such a way that the farmers fail to obtain the best price. There seems to be little doubt that financial pressure—the need of ready money to meet rent, revenue and other seasonal charges and pressure from creditors—is one of the chief causes which impel farmers to release their produce in an overfed market for what it will fetch. In this connection it may be noted that the Punjab Committee recommend that the recovery of land revenue should not be effected at one and the same time throughout the province, but should be distributed over different areas in different months. How far this suggestion will help the cultivator has not been the subject of investigation elsewhere. The financial pressure to which the cultivator is subject also exhibits itself in the phenomenon that the cultivator in many cases sells, almost immediately after production, even such produce as is required for his consumption. He either buys it again in a dear market or obtains it by way of loan in kind from the village merchant or trader.

FINANCE FOR MARKETING AND MOVEMENT OF PRODUCE.

271. Some of the Provincial Committees have taken marketing to comprise the process of transporting and selling produce by the farmer and have distinguished it from trading which begins when the produce has been handed over to a merchant. But this distinction has not been observed by all the Committees and considerable overlapping is found between the sections dealing with marketing and internal trade. This is not surprising as strictly speaking marketing covers "all the activities involved from the time the product leaves the producer until it reaches the consumer". The essential and ordinary functions of marketing according to

the preliminary report of the International Institute of Agriculture and other writers on Agricultural economics are :—

(*a*) Collection and assembly.
(*b*) Transportation.
(*c*) Wholesale distribution.
(*d*) Retailing.
(*e*) Risk-bearing.
(*f*) Financing in all stages.

*(*a*) *Collection and assembly.*—The cost of this function will be minimized by specialisation of agriculture in a district as opposed to diversification, by standardisation, and grading and uniform packing. The formation of co-operative sale societies by farmers will be useful in securing economy in these operations.

(*b*) *Transport.*—Transport may fall into several stages of which the following may be mentioned :—

(i) from the rural areas to the railway station,
(ii) from the railway station to the terminal point, and
(iii) from the terminal point to the urban consignee.

Some instances of how farmers economize in the first item are mentioned by the Provincial Committees. A large percentage of the cotton growers of Berar bring the cotton in their own carts. In Burma, the cultivator often takes part in transportation and is paid for it. The third journey is usually in the hands of the wholesale and retail dealers who can reduce costs by increasing efficiency. The cost of the second journey is beyond the control of farmers, but large-scale collecting agencies, private or co-operative, may be able to secure cheaper rates than small disorganised groups of consignors. Costs can also be reduced by standardisation, grading and uniform packing. We have referred to the useful part that the railways can play in encouraging the movement of agricultural produce by giving concessional freight rates for its movement in Chapter IV.

(*c*) *Wholesale distribution.*—The cost may be reduced by large-scale operations and by organisation of consumers' co-operative societies and by standardisation and grading.

(*d*) *Risk-bearing.*—Fluctuations in prices give rise to important marketing risks and may be controlled by orderly marketing, by proper treatment of surpluses, by collection of agricultural statistics and dissemination of correct information to farmers and by tariffs and subsidies. Co-operative societies of producers may also regulate production.

*For the analysis of the various functions we are indebted to 'Agricultural Economics', by G. O'Brien.

Such fluctuations are violent and unnatural when in a market where forward trading is in vogue, large quantities are dealt in on paper without such sales being backed by actual commodities. Organized forward trading centres run on approved lines—with the approval of the governments concerned if necessary—would control such reckless operations. Raids, both bull and bear, in forward markets are undesirable in the interest of orderly marketing.

(*e*) *Financing*.—This is as important as, if not more important than, any of the other marketing functions. The farmers require finance to enable them not to unload their stuff all at the same time and thus depress prices. The wholesale and retail dealers all require finance to carry on their functions.

272. Assuming the existence of a given price, the farmer's profit will be affected by the cost of all the marketing functions including the price paid for finance. We wish to emphasise that every part of the marketing process is a link in a continuous chain and that the strength of the chain depends on the strength of all its parts. The Provincial Committees have rightly dealt with all aspects of marketing so as to give a complete picture. When it comes to making recommendations, we as a Banking Committee are concerned only with one aspect of the subject, *viz.*, finance. But we cannot deal with the question in a satisfactory manner without expressing our views on the other factors which promote orderly and profitable marketing of agricultural produce. Without attempting a detailed examination of these factors, we express our concurrence with the following recommendations of the Royal Commission on Agriculture in India, and the various Provincial Banking Enquiry Committees, for improving and organising agricultural marketing :—

(1) Improvement of transport facilities including rural communications. We must not be understood to mean that we recommend an indiscriminate substitution of bullock carts by motor lorries.

(2) Lowering of railway freight rates and grant of other railway facilities.

(3) Establishment of regulated markets under provincial legislation on the general lines of the Berar and Hyderabad (Deccan) Market Acts.

(4) Standardization of weights and measures.

(5) Adoption of measures to secure improved quality of produce by organization amongst buyers and traders, and to guard against adulteration.

(6) Fixation of standards and grades of commodities.

(7) Promotion of co-operative sale societies and other suitable organizations for purposes of sale.

(8) Holding of auction sales by agricultural departments to ensure increased price to the cultivators who produce improved varieties. We advocate that the Government should not make any profit for themselves from such sales.

(9) Carrying out of market surveys.

(10) Appointment of expert marketing officers on the staff of the Agricultural Department who should be able to understand the language of the market and be conversant with the customs connected therewith.

We should, however, like to make a few observations in regard to some of the recommendations mentioned above. As regards railway facilities, we understand that there is no guarantee at present as to when a consignment of agricultural produce is likely to be delivered and that it often happens that by the time the articles are received at the place of destination the prices have gone down considerably. This uncertainty has to be guarded against by the traders and it is therefore not only cheap railway freights but also quick movement of produce that requires consideration at the hands of the railway authorities.

As regards standardization of weights and measures, we would invite the attention of Provincial Governments to Note 'G' in the Report of the Punjab Provincial Banking Enquiry Committee which gives the results of the enquiries made by the Board of Economic Enquiry into the accuracy of weights and scales in certain districts. We think that it is not only necessary for Provincial Governments to undertake legislation for standardizing weights and measures, but it is also incumbent upon them to see that everything is done to ensure that false weights and measures and consequent fraud are rooted out. It has been seriously complained that laxity in this matter has brought about a state of affairs where it is possible for a trader to make irregular profits by manipulating the weights and scales, using one set for buying and another for selling the produce.

Adulteration is undoubtedly an important factor which affects the market for, and the price of, the produce. The demand for Indian agricultural products will receive a serious set-back unless effective action is taken to prevent adulteration by every agency through whose hands they pass. With regard to the adulteration of milk and ghee, to the evils of which the Royal Commission on Agriculture have drawn pointed attention, the existing laws seem to be ineffective in so far as they penalize such adulteration only when the article used is mixed with things which are injurious to health. Adulteration of dairy products will drive away the genuine products out of the market and thus affect the dairy-farming industry.

273. We now proceed to treat in some detail the financial aspect of marketing. The first point which requires notice in this connection is the system of advances on crops which is prevalent in some parts of India and has a very intimate bearing on marketing. The general feature of this system is that in many places not only do the advances carry high rates of interest, but they also put the borrowers under an obligation to sell their produce for less than the anticipated market price. The following are some instances :

(i) In Orissa rice merchants sometimes make advances to the ryots direct. No interest is charged if there is a contract for delivery at a particular price and on a fixed date. But if the contract is for delivery at the market price at the time of delivery, interest at 12 to 18¾ per cent is charged, or less if the quantity involved is large.

(ii) It is said to be a common practice in Madras for ryots to take loans on condition of repayment at the harvest. It is usual, where the lender is a shopkeeper or merchant, to have a stipulation that the crop shall be sold at a rate, sometimes prearranged, but more frequently at the prevailing market rate or 5 per cent less than the prevailing rate. In the case of the small ryot, this acts to the detriment of his interests as he has practically to agree to the merchant's terms. The more substantial ryot, on the other hand, can decide when to sell his produce, and as he has some knowledge of the market, he is able to secure a fair price for his produce.

(iii) In Bengal, in places where the system of *dadan* prevails, it is said that the cultivators cannot avail themselves of a free market for their produce. Sometimes, the advances carry interest from 24 to 75 per cent and the rate at which the grower binds himself to sell is often lower by 10 to 25 per cent than the anticipated market rate.

(iv) In Burma, it is stated that in one or two districts the lenders compel borrowers to sell the produce to them, but that generally the current market price is paid. The reason for the stipulation is said to be the lender's anxiety to prevent the borrower from spending his money before paying his debts.

(v) In the Bombay Presidency, money is advanced to the sugarcane growers on the security of the crop, with a condition that the *gur* must be sold through the money-lender. But sales are ordinarily effected by public auction and it appears the money-lender can secure by this system only the commission which would otherwise go to some other commission agent.

(vi) In Bihar and Orissa, two kinds of advances are in vogue in respect of sugarcane crops :—

(*a*) Advances of a large amount per acre at a more advanced stage of growing, carrying interest at 12 per cent, and

(*b*) Advances of a small amount per acre at an earlier stage of growing, carrying no interest, but counterbalanced by other advantages to the lender.

In both cases the crop is to be delivered to the lender and the price is the rate of the season and the cultivator appears to get the fair market price.

(vii) In the case of jute in Bihar and Orissa, when the price is low, the ryots take a small sum as earnest-money for which the lender who is the buyer of jute gets merely the first refusal. The producer is free to sell as and when he deems fit and is said to be well informed as to the Calcutta price and its probable trend. It is reported that the system of advances is no longer considered profitable to the lender and that its discontinuance is contemplated.

(viii) A system of advances carrying a liability to sell the produce through the lender is also reported among cotton and sugarcane growers and flower and ghee dealers in the United Provinces, and the producers are said to obtain for their produce less than they would have got if they had been free to market the produce themselves.

(ix) It is reported that in regard to marketing of cocoanuts, in 25 per cent of the sales in Bihar and Orissa, the growers are given advances which carry no obligation at all, but carry interest at 12 to 15 per cent per annum.

(x) Small planters in Coorg who have borrowed from local money-lenders do not get the market price, but only a definite percentage or amount below that price.

274. A second point brought out in the Provincial Reports relates to the effect of the cultivator's indebtedness on the marketing of his produce, even if the cultivator does not borrow specifically for raising the crop. The Bengal Committee report that the cultivator who is indebted is always pressed heavily by the creditor immediately after harvest, for the latter knows that if the debtor does not pay after selling his produce, it will not be possible for him to pay till the next harvest. The effect of this pressure is so great that the borrower is compelled to sell his produce as quickly as he can, and if all sell at the same time, the price naturally comes down by competition. The Punjab Committee think that in ordinary circumstances, the seller should naturally be prejudiced by being in debt to his dealer if only because equality cannot subsist between debtor and creditor, but the evidence before them suggests that the disadvantage to the seller is less than is generally supposed and that it tends to diminish with improved communications, spread of education and knowledge of market rates.

275. We have carefully considered the hardship caused to the cultivator by the practices referred to in paragraphs 273 and 274

above. In the case of crops intended for export, adequate remedy for these evils will not be forthcoming until arrangements are made for orderly marketing. But the organization of co-operative sale societies which can advance money to the cultivators and enable them to avoid being forced to sell their produce at unfavourable rates will go a great way to help the cultivators in the case of crops intended for internal consumption. We therefore recommend that co-operative sale societies should be established wherever there are reasonable chances of their successful working. We do not recommend that such societies should purchase their members' produce outright, but we recommend that they should continue the present practice of acting as agents to producers for the sale of their produce. It is desirable for the present that these societies should deal only with the produce grown by the members; but if in any particular locality the society is competent to deal with non-members' produce, there cannot be any objection to such a course. We shall refer to these sale societies again later on.

276. The next point that may be noticed is the practice of the sale of standing crops. It is said by the Bombay Committee that a small percentage of agriculturists sell their standing crops of cotton, either for want of money or for speculation. The mango crop in Bombay is almost invariably sold when it is on the trees and sometimes even before it is actually seen in blossom. The crop is usually purchased by contractors who pay part of the price immediately after the bargain is struck and the rest in instalments when the crop is gathered. The same practice is reported in regard to marketing of oranges in Coorg. We do not think that any useful action can be taken in this connection.

277. We now come to one of the more important aspects of marketing finance, namely, the interest charges paid by the various middlemen for obtaining the necessary finance for moving the crops forward. The following summary from the Provincial Committees' reports will be found interesting :—

(i) *Assam.*—Some *beparis* have their own capital but others are financed by bigger *beparis* and *aratdars*. Occasionally cultivators with sound security, who lend to fellow villagers on condition of repayment by handing over of crop, borrow from Marwaris at 18 to 24 per cent. to re-lend at higher rates. The village *mahajans* who make advances to growers of produce work partly on their own capital, and partly on loans obtained at 9 to 12 per cent from Marwaris and other merchants in towns on the understanding that the former will make over their crop to the latter.

(ii) *Bombay.*—Village or itinerant dealers in cotton, petty traders in tobacco and rice, and contractors for fruits and vegetables, get their finance mostly from town merchants, shroffs and commission agents and pay high rates of interest which compel them to offer

low prices to cultivators. The rate paid by traders in tobacco, for instance, varies from 18 to 24 per cent. Commission agents have to pay from 9 to 12 per cent to local bankers when they themselves have to borrow. A large class of merchants and traders, it is stated, now remain outside the sphere of business of the Imperial Bank of India and joint-stock banks owing to the following causes, *viz.*, disinclination to pledge stocks with banks, rigidity of the regulations governing advances by banks against the security of goods in the godowns of banks and publicity given to such advances.

(iii) *Bengal.*—The finance is generally supplied by traders who, in addition to providing their own capital, occasionally obtain loans from money-lenders and indigenous bankers on *hundis* in respect of produce which is exported. The mercantile firms of Calcutta finance the movement of produce through their purchasing agencies and branch offices in the mofussil centres. In the case of independent purchasers, the finance is furnished by the money-lenders or by *aratdars*. The wholesale dealers of Calcutta obtain accommodation generally by borrowing on personal credit and they also grant credit to their clients in the same way. In rare cases, railway receipts and bills of lading are used as security for advances by banking institutions.

(iv) *Burma.*—Dealers are financed by Chettiyars, Dawson's Bank and the Imperial Bank of India on the security of agricultural produce. The rate of interest generally charged by Chettiyars is 12 to 24 per cent. per annum, the usual rate in the busy season being 21 per cent. But in the case of advances required for the marketing of ground-nuts, the interest charged varies from 15 to 30 per cent.

(v) *Bihar and Orissa.*—The prevalent system of marketing finance is for the export houses and commission agents to raise money from their own banks or from the Burra Bazar at Calcutta and to finance the up-country traders or *goladars* who have no large capital of their own. The latter in turn finance the small *beparis* and village money-lenders who buy outright from the cultivators for cash or credit already advanced. As an illustration of the interest rates paid, it may be mentioned that in the case of lac, *arhatias* through whom *paikars* sell lac to factories, charge the *paikars* 12 to 24 per cent. The Calcutta *arhatias* to whom the factories sell their product offer the same kind of accommodation to the factories as the local *arhatias* give to *paikars*. The *goladars* and the big grain merchants are also occasionally assisted by the Imperial Bank of India and the joint-stock banks, but it is said that assistance is given on such strict conditions regarding security that it is rarely availed of. In one town the *goladars* were found willing to pay 9 per cent on advances from indigenous bankers rather than pay 7½ per cent to joint-stock banks.

(vi) *Central Provinces.*—The middlemen in the Central Provinces are normally financed by the indigenous bankers and money-lenders, the rates of interest charged being 37½ per cent per annum. When advances are taken for the whole season, the rate is about 15 per cent. The wholesale merchants generally work with their own capital and if they want credit, they borrow from banks or indigenous bankers on the security of their goods, keeping these in the godowns of the lenders.

(vii) *Central Areas.*—Commission agents in the *mandis* charge 6 to 7½ per cent. to the bigger agriculturists and village dealers who store produce with them for short periods.

(viii) *Madras.*—The middlemen supplement their resources by borrowing on short-term credit from joint stock banks, which discount *hundis* and bills, and from indigenous bankers and money-lenders, who lend money by discounting *hundis* and also on pronotes or personal credit. Loans and cash credits can also be obtained from the Imperial Bank of India but two signatures are required on pronotes in such cases by the Bank Act. The Imperial Bank of India also discounts *hundis* and grants loans on produce. A great deal of the produce loans is said to be in the hands of the Imperial Bank and the indigenous bankers do not appear to do much business on this basis. The reason is that the merchant can get loans from the Imperial Bank on this security at rates far below the ordinary lending rates of interest of the money-lenders. The urban co-operative banks also play a minor part and a few of the *nidhis* which do ordinary banking business lend for this purpose. The indigenous bankers lend at higher rates of interest on personal credit.

(ix) *Punjab.*—The commission agent works mainly with his own capital supplemented by deposits attracted from relatives and neighbours. The smaller agent obtains advances, if required, from the bigger agents at 9 to 12 per cent interest. The larger commission agents borrow from the indigenous bankers and commercial banks at 6 to 9 per cent according to the security offered. When the security is grain, the rate is 7 to 7½ per cent. When it is house property, the rate is 9 per cent. In the slack season rates are lower and are 4 to 6 per cent. Large sums are now advanced by the Imperial Bank of India against produce, possession of which is taken. Before an advance is made, the applicant's financial position is carefully enquired into and also his general trustworthiness, and on the results of the enquiry a maximum credit limit is fixed and an advance is made. Generally, advances are allowed up to 75 per cent of the value in the case of grain and up to 70 per cent in the case of cotton. In the event of a fall in prices, the margins are maintained either by adding to the produce stored or by repaying a part of the loan. Advances against produce are also given by the Allahabad Bank, the Central Bank of India, the Punjab

National Bank and the Peoples Bank of Northern India. The last two find it difficult to compete with the rates charged by the Imperial Bank of India. The Amritsar Sugar and Grain Association also grants advances at rates of interest varying from 5½ to 7½ per cent and up to 80 per cent of the value of the produce. In addition, godown rent has to be paid. The Imperial Bank's rates for financing cotton in godowns are said to be higher than those for grain because money is dearer during the cotton season and insurance rates are higher, most of the insurance companies in fact refusing to insure cotton when stored in factory compounds. Consequently the Bank's advances are almost entirely confined to cotton stored outside the factory.

(x) *United Provinces.*—The burden of marketing finance falls on the *pucca arhatia* who borrows from his *shroffs* or bank at rates depending on his financial position, the volume of his business, and his relations with the *shroffs* or bank. In the case of goods which he stores, he pledges them with banks or bankers. The methods of the indigenous bankers are found to be more favourable than those of organised banks, as the former are generally satisfied with a smaller margin and even forego it in some cases. They are also content to have merely the key of the godown in which the *arhatia* stores the goods, whereas the commercial banks want to put their own lock and sign-board over the godown.

278. The methods employed for obtaining financial accommodation also deserve mention :—

(*a*) When goods are sent from one middleman to another, funds are generally drawn by means of *darshani hundis* which are either supported by railway receipts or are clean. Banks generally prefer *hundis* supported by receipts since their risk is thereby reduced, but some consignees insist on railway receipts being sent direct to them either as a matter of prestige or to take an advance to pay the *hundi* or to save demurrage. The use of usance bills has become less common in recent years.

(*b*) Some of the Provincial Committees report that the small *beparis* and village money-lenders who buy agricultural produce from the cultivators make their purchase mostly on a cash basis. If these *beparis* and money-lenders require any addition to their capital for this purpose, they in their turn get actual cash from urban centres from larger traders or urban money-lenders. This arrangement does not admit of a direct contact with the money market. If the use of *hundis* could be encouraged in connection with these transactions, such *hundis* might be discounted in the money market and the rates of interest paid

for accommodation for the movement of crops might thereby be lowered.

279. After studying the position as presented in the reports of the various Provincial Banking Enquiry Committees, we have come to the following conclusions :—

(*a*) The popular belief that the middlemen and the small merchants perform no useful functions is erroneous. Most of the Provincial Committees have found that the charges made by them are not exorbitant.

(*b*) We are told that the disinclination on the part of merchants and traders to pledge stocks with banks is gradually disappearing. We think that in their own interest merchants and traders should entirely abandon their present attitude and take all steps that are possible to use the liquid goods in their possession for getting cheaper accommodation from banks. It would be a great help to agriculture if joint-stock banks and the Imperial Bank of India would adopt a still more liberal policy in the matter of granting advances against agricultural produce in godowns.

(*c*) Both in connection with advances by banks on the security of agricultural produce, and the promotion of the use of bills with a view to securing to the middlemen engaged in the trade financial accommodation at cheaper rates of interest, it is necessary to provide for facilities for storage accommodation in various parts of the country. If storage accommodation is provided in independent warehouses, receipts given by these warehouses may be used as credit instruments on which accommodation may be obtained. The provision of storage facilities would also give the cultivator and seller of produce more freedom to hold it up if the price were unsatisfactory or if any circumstances arose which made such a course desirable.

Godowns and Warehouses.

280. We recommend that Provincial Governments should consider the desirability of advancing long-term loans at concessional rates of interest to co-operative societies to build godowns in centres which provide good markets. We are aware that in Madras the Provincial Government already grant loans for this purpose up to a limit of half the amount spent by the societies, not exceeding Rs. 2,500 in each case. We are informed that only a few godowns have been constructed in this manner and that the slow progress is due to the fact that the rate of interest charged on loans by the Government is heavy and the charges for storage accommodation are high owing to the expensiveness of construction and its utilization for only a few months in the year. We suggest that the type

of godowns constructed in future may be on a less expensive scale consistent with safety and that where the godowns cannot be used for the whole year, the possibility of hiring a godown may be tried.

281. We fully realize that the main difficulties in connection with storage and warehousing would be grading and mixing of stocks of different parties, though it is possible that this difficulty would not arise in the case of warehouses made use of by the larger merchants. We find it stated in the Report of the Punjab Provincial Banking Enquiry Committee that the cultivator has a rooted objection to pooling and that this objection alone is a serious obstacle to the scheme of warehouses. We feel, however, that experiments should be made at selected centres, and that the benefits of standardization, grading and pooling should be brought home to the agriculturist by this means and by propaganda and education, as the warehouse receipts would be welcomed in the money market and would be a very effective means for cheapening the rate for marketing finance. We should like to note that similar difficulties existed in Canada as late as 1907, but have been overcome by educative propaganda and experience of the services of warehouses. We, therefore, recommend that the question of providing warehouses by private agencies and licensing them, and the provision of capital for their construction, be taken up by Provincial Governments. The Imperial Council of Agricultural Research might also co-ordinate the efforts of the Provincial Governments in this matter which is materially connected with marketing, a subject coming within the purview of the work of the Council under its constitution. We reproduce in an annexure to this chapter a copy of the draft Bill of (the late) Mr. B. F. Madon for the establishment of such warehouses. We commend the provisions of the draft Bill for the consideration of the Provincial Governments. We agree with the United Provinces Provincial Banking Enquiry Committee that provision should be made in any future legislation regarding warehouses to the effect that the warehouseman should not be permitted to deal in, or lend money, on goods of any kind which he receives in his warehouse, either in his own account, or that of others; to buy or sell others' goods on credit, or to act as a guarantor of such business. The object of this provision is to remove any temptation in the way of the warehouseman to tamper with the goods in his custody or to exercise undue influence on the depositor to sell his goods to him. We also suggest that in connection with any scheme for the establishment of warehouses, Provincial Governments should give careful attention to the following details:—

(i) Any person who is licensed as a warehouseman should be of recognized integrity and should have business ability to run a warehouse. There should be a licensing board in each province for the grant of licences, which would consist of one Government

officer and a number of representatives of local business interests, including agriculture especially for up-country areas. Small local licensing boards may have to be appointed for some divisions of the provinces, *e.g.*, Gujerat, Deccan, etc.

(ii) The warehouseman should have a reasonably substantial capital. If on the other hand he hires the warehouse, he should deposit with Government a substantial amount, in cash or securities. The security deposit should, however, not be so exorbitant as to drive out private enterprise.

(iii) In areas where grading of produce is done, it is necessary that there should be representatives of the growers on the licensing board. In such cases, Government should ensure the availability of trained and certified graders and the warehouseman will be required to employ only such graders.

(iv) All produce stored in the warehouse should be insured against fire and other accidents.

(v) The licensing authority should be empowered to decide among other things the following matters :—

(*a*) Classification of commodities into perishable and non-perishable articles, articles deteriorating with lapse of time and non-deteriorating articles, and the apportionment of the risk of damage between the warehouseman and the owner of the produce in regard to the class of articles.

(*b*) The apportionment of risk between the warehouseman and the owner of produce of any damage arising from riots and civil commotion.

282. As some Provincial Banking Enquiry Committees have suggested that Government should examine the possibilities of starting railway warehouses in the chief centres of trade, we brought the suggestion to the notice of the Railway Board and also discussed the matter with their representatives. The Railway Board were also kind enough to furnish us with an estimate of the cost of provision and working of warehouses at certain selected railway centres. These will be found in Appendix III in the volume of Written Evidence. While the Railway Board state that they are anxious to do all in their power to help the trade of the country, they consider that the proposal for the establishment of railway warehouses would necessitate a detailed investigation so that the full implications might be made clear. In view of the importance of the subject from every point of view we should urge upon the Government that a detailed investigation of the problem in all its aspects should be undertaken by the Railway Board and that the railways should be asked to start experiments at selected centres, as we believe that such experiments will be of considerable benefit to the country.

We also discussed with the representatives of the Railway Board the question of the railways allowing private enterprise to provide and work warehouses in the vicinity of railway stations and we have been kindly furnished by the Railway Board with a copy of the terms of the lease that would be acceptable to the railways. The Railway Board's letter furnishing these details is also included in the Appendix referred to above. There are two items in those terms which, from the point of view of promoting private enterprise in the direction desired by us, seem to call for some remarks. It is stated that on the termination of the lease any buildings, works, etc., upon the land leased may be purchased by the Railway administration, and if not so purchased, should be pulled down and the material removed from the land by the lessee at his own expense within two months. We consider this most unsuitable for promoting private enterprise and that, at a minimum, the terms should be altered somewhat on the following lines :—

> If the lease is terminated by notice given by the Railway administration, any building on the land constructed by the lessee shall be purchased by the Railway administration at the current market price of the building, to be valued by an impartial party in case of difference between the Railway administration and the lessee. On the other hand, if the notice is given by the lessee himself, and the Railway administration are not willing to purchase the building themselves as above, the lessee would be at liberty to sell the building to any other person subject to the approval of the Railway Board which approval shall not be withheld unreasonably.

Where railway land is not available and a warehouse is provided on privately owned land at some distance from the railway goods-shed, it is stated that a railway siding, if practicable, will be provided on the usual "assisted siding" terms. In view of the importance to the agriculturist and the trader of the provision of accommodation for the storage of their produce, we trust that the terms for the provision of the railway siding will be more favourable than the usual "assisted siding" terms.

283. The subject of railway warehouses leads us naturally to a consideration of the question of railway receipts, *i.e.*, receipts granted by the railways for the transport of goods from one place to another. In connection with the marketing of produce, we have referred to the use to which these railway receipts are put. They are either attached to the *hundis* or drafts on the purchaser of the goods, or are sent to the consignee to enable him to raise an advance on the security of the receipts with which to pay the *hundis* or drafts when they arrive. At present these receipts are not negotiable or transferable. They do not give either a

full or a correct description of the goods. They are not also in the same position as bills of lading as, with the passing of the Indian Contract Act, the provision of the Factors Act making pledge of documents of title to goods equivalent to the pledge of goods has been abrogated. The decision* of Justice Waller of the Madras High Court clearly enunciates that banks do not get safe security in the shape of a railway receipt which is endorsed to them. Without going into all the legal complications involved in the interpretation of the sections of the Indian Contract Act and the new Sale of Goods Act, we recommend that a railway receipt should be placed by the legislature on the same footing as a bill of lading. This will despense with various devices that have been suggested to make the railway receipt a valid security, such as the pledgor addressing a letter to the railway company advising the company that he has transferred his interest in the goods to a bank, the bank in forwarding the pledgor's letter instructing the railway company to hold the goods to its order and the railway company being prepared to accept such instructions. We also recommend that railway receipts be made negotiable and that the railway authorities should issue instructions that the receipt should give as full a description as possible of the goods covered by it.

Marketing Boards.

284. We are indebted to Mr. A. P. McDougall, one of the foreign banking experts, for an interesting memorandum on 'Marketing'. Two suggestions in that memorandum have impressed us considerably. They are the establishment of a marketing board and of a jute control corporation. Mr. McDougall recommends a central marketing board with provincial branches. We regret we cannot accept this suggestion in the precise form in which it has been put by Mr. McDougall, as such an arrangement would not fit in with the constitution. The marketing boards should, in our opinion, be on a provincial basis and proposals for their establishment should be examined by Provincial Governments in connection with the creation of regulated markets by provincial legislation as recommended by the Royal Commission on Agriculture.

The marketing board will have many important duties to perform. It would be one of its functions to bring about the co-operation of the various interests in the building of godowns and warehouses throughout the province. In consultation with the co-operative authorities, the board would assist and support the promotion of co-operative marketing. The board might also help in the marketing of products of cottage industries. It will be one of the main duties of the board to make a survey of the conditions which govern the marketing of the various products from the ryot to the final market. In fact by

* Judgment delivered on the 7th January 1930 in Official Assignee of Madras *versus* Mercantile Bank of India.

standardising and organising the country's supplies of agricultural produce, the marketing board would help the agriculturist to get a full and adequate return for his production. The marketing surveys that we have recommended will be made under its supervision, and the marketing officer, we have proposed, will be closely associated with this board.

285. We realize the necessity for some agency to co-ordinate the activities of the provincial marketing boards particularly in the case of agricultural produce which is intended for export from the country; but, as stated above, we do not consider it desirable, to set up any Central Marketing Board with administrative control over the provincial boards. Such assistance as may be given by way of advice and research may usefully be furnished by the Imperial Council of Agricultural Research and we understand that the Council intend to have a separate section to deal with these problems. If it is found later that the work of this separate section has grown and a separate department is necessary, we have no doubt that that department will come as a matter of course.

Jute Control Corporation.

286. Mr. McDougall has also recommended the establishment of a jute control corporation. He considers that jute is the only crop of any magnitude which under the existing conditions lends itself to such a form of control as would ensure a stabilized price to the grower. The corporation would have "powers to fix prices for the raw material, to eliminate unnecessary costs of distribution to control output, and if necessary to undertake distribution and effect all payments". It should have a capital provided by the Provincial Governments in the jute-growing areas and its management should be in the hands of a directorate constituted on certain prescribed lines so as to include representatives of all the interests concerned. For further details of the working of the scheme, we would refer to Mr. McDougall's memorandum. We have given considerable time and thought to the consideration of this proposal for the stabilization of price and the regulation of production of jute. We admit that there are several good points in the scheme, but without consulting all the interests involved in a proposal of this kind it is not possible for us to support the particular scheme or to put forward an alternative one. We recommend that the Governments concerned should examine the matter in the light of Mr. McDougall's proposals and introduce an arrangement which may be suitable for all interests affected. We also consider that in any scheme which may be evolved in the future, the following points may be considered:—

(1) The share capital of the corporation should not be wholly subscribed by Government but should come from the producers, the business interests and the State, the share of the State being gradually diminished as the other interests can replace it.

(2) The settlement of a fair price for the produce cannot be left to the management of the corporation but there should be an independent and impartial body to undertake this task.

(3) The producers must under any circumstances have adequate representation on the management of the corporation so that their interests in it may properly be safeguarded.

(4) We do not approve of the scheme of representation suggested by Mr. McDougall in the constitution of the board, and we particularly hold that there is no need for representation for overseas interests. The details of the composition of the board will have to be worked out in connection with the scheme as a whole and steps will have to be taken to ensure that no particular interests preponderate on the board and to provide for the representation of the State, if necessary.

(5) For the successful working of the corporation, it is necessary that both its constitution and its functions should be provided for by statute.

(6) It is essential to have a preliminary survey of jute production in the three provinces of Bengal, Bihar and Orissa and Assam.

(7) The question whether in case of restriction of jute any lands which are released from jute can be used for growing other crops is a matter which will require the attention of the local Governments which will, if necessary, consult the Imperial Council of Agricultural Research.

(8) The Jute Committee recommended by the Royal Commission on Agriculture, which we have reason to believe will be appointed in the immediate future, will no doubt deal with these and other matters.

287. In paragraph 269 we have quoted from the report of the Bengal Provincial Banking Enquiry Committee their opinion that the absence of fixed standards results in considerable loss to growers of jute. We consider it important that early steps should be taken to remove this disability; and we should like to observe that it is one of the principal reasons why we advocate the establishment of a jute corporation on sound lines as early as possible. We recognize, however, that even if prompt action is taken by the Governments concerned in the matter, it will take some time before the scheme materialises. In view, however, of the great importance to the producer that the standards should be fixed as early as possible, we further recommend that the local Governments concerned should take prompt steps for the fixation of pro-

per standards of jute. These standards may be revised later on when a corporation, on the management of which both the buyers and producers will be represented, comes into existence.

288. The Bengal Committee have pointed out that the East India Jute Association has been established with a view to impart a steady tone to the movements of the price of jute but that its present constitution and working have not achieved the purpose. The Committee have, therefore, recommended that a properly organised futures market should be established by legislation. We think, however, that if action in the direction contemplated in the preceding paragraphs is taken, there will be no necessity for considering the recommendation of the Provincial Committee.

Chambers of Agriculture.

289. We have, in the previous chapters referred at many places to the unorganized state of agricultural finance, production, and marketing. We are strongly of opinion that the producer should have a *forum* in which agricultural opinion on all these matters is focussed and crystallised into well-thought out programmes for the advancement of the industry. In many countries, *e.g.*, Germany, the agriculturists meet in Chambers of Agriculture for discussion of questions of common concern. We are impressed with the need for the establishment of such Chambers and the usefulness of their activity. We consider that such Chambers of Agriculture might, with considerable advantage, be established on a provincial or regional basis.

Co-operative Sale Societies.

290. The following statement gives some statistics regarding membership and capital of the co-operative sale societies as on the 30th June 1930.*

	Number of Societies.	Membership.	In thousands.			
			Share Capital and Reserve.	Deposits.	Loans.	Total Working Capital.
			Rs.	Rs.	Rs.	Rs.
Ajmer Merwara	2	140	10	1	27	38
Assam	2	131	2	..	8	10
Bengal	108	31,606	8,18	68	39,40	48,26
Bihar and Orissa	2	50	3	..	3	6
Bombay	81	15,142	6,14	2,91	6,03	15,08
Burma	31	2,141	2,51	30	1,20	4,01
Central Provinces	7	775	19	52	12	83
Delhi	Not furnished separately.					
Madras	73	5,261	120	9	3,61	4,90
North-West Frontier Province.	Not furnished separately.					
Punjab	26	4,765	401	1,39	1,84	724
United Provinces	42	2,436	20	10	24	54

* The dates vary with reference to the Co-operative year in each province; the latest figures available are given.

291. According to the reports of Provincial Committees the position in regard to the growth and success of these societies is as follows :

(i) *Assam.*—In order to create a favourable market for the grower of jute, the Nowgong Co-operative Sale Society was started in 1927. The business was not a financial success owing to insufficient capital; lack of business experience on the part of the management; inability to grant advances to cultivators to extricate themselves from the grip of the Marwaris; and, finally, disloyalty on the part of the members.

(ii) *Bombay.*—On the 31st March 1929 there were 28 cotton sale societies and 31 other sale societies and the total value of produce sold through them was over Rs. 730 lakhs for the year 1928-29. We are told that the societies have been successful. The cotton societies supply seed to members, arrange for ginning and grading with the assistance of the Agricultural Department and for sale by auction or by private treaty. As a further step in marketing, ginning factories have been started and their work has been co-ordinated with the sale societies. It is said that no difficulty has been felt in regard to the supply of finance. Some societies levy a fine for disloyalty on the part of members.

(iii) *Bengal.*—Co-operative sale societies have been established in many centres in Bengal, dealing in commodities like paddy and jute but, with rare exceptions, they have not yielded the expected results. The jute sale societies have resulted in failure.

(iv) *Bihar and Orissa.*—Two experiments were made in co-operative marketing in Bihar and Orissa and both of them resulted in disastrous failures.

(v) *Central Provinces.*—Experiments made in co-operative sale societies or *adat* shops have not met with much success. Their number on 30th June 1929 was 5 and the total membership 296 and the value of business about Rs. 15,000. The Registrar's report for the latest year available shows that there is a clear indication that these institutions stand a better chance of success if the grading of cotton is regularly introduced as is the case in similar societies in Bombay. More intensive propaganda is also said to be necessary for popularising the co-operative sale societies.

(vi) *Madras.*—Many attempts were made, some were successful and some proved failures. Four co-operative sale societies have been started for cotton. They are in their infancy. The total paid-up share capital of these societies amounts only to less than Rs. 30,000. They are said to be a success in the limited scale in which they are carried on. The ryots are allowed to put their cotton in the godown, take advances on them and have them graded and sold. In the case of planting produce, it is said that "there is too much disparity between the big and the little to enable them to combine readily".

(vii) *Punjab*.—In the Punjab, the number of societies at the time of the Committee's report was 25 and the value of produce sold through them Rs. 58 lakhs in 1928-29. It is said that 37 per cent of the produce sold was on account of non-members. It is also urged that these societies make little appeal to the small holder, and most members are lukewarm in their support and many do not use them at all for the sale of their produce. Reliable and suitable managers are not easy to secure and embezzlements are not infrequent. The financial position of the societies in the canal colonies is said to be sound, and very little advantage is reported to be taken of the storage facilities offered by commission shops though they are mostly prepared to advance up to 75 per cent of the value at 9$\frac{3}{8}$ per cent.

(viii) *United Provinces*.—There has been no progress in the direction of introducing co-operative sale societies.

292. We have already pointed out the directions in which co-operative sale societies can introduce economies in marketing costs. We agree with the Provincial Committees that the success of such societies depends upon four factors :—

(i) There should be a margin between the lowest and the highest price during the period for which the product can be stored, sufficient to cover wastage, interest and management charges and still leave an appreciable economy.

(ii) The management of the societies should be entrusted to managers with local knowledge and commercial experience.

(iii) There should be loyalty among the producers strong enough to keep them from the temptation of seizing opportunities of larger profits by selling elsewhere, or from deserting the society on the first appearance of loss.

(iv) The society should get a fair share of the turnover in the area in which it operates.

293. On the whole, we think that there is much scope for improving and extending the existing machinery and that with a clear line of advance and with sound and competent guidance, co-operative marketing is full of possibilities for the future. We may observe in this connection that the Economic Depression Enquiry Committee in Madras has recommended the organisation of more co-operative sale societies for all kinds of agricultural produce, especially commercial crops, and has urged that Government should give liberal grants to such societies for the construction of godowns. We also consider that Provincial Governments should not hesitate to make advances to co-operative banks at concessional rates of interest for the development of co-operative sale societies.

Possibility of Pools.

294. The Bihar and Orissa Committee point out that the pool involves an agreement among individual producers not to sell except at prices agreed on by the whole body of producers acting through an association, but it does not necessarily imply the physical collection of the products in one or more storage centres. They say that this form of organization is already working successfully among the indigo growers in North Bihar and the success of the organisation is due to the fact that the number of growers does not exceed 200 in all and that they are well educated men with long experience of their business. The Committee add that there is no agricultural product in that province which at present holds out much hope of similar organisation and that no one has come forward to advocate the idea of stimulating the formation of pools. Other Committees are of opinion that pools are not a practical proposition in India at present. One Committee doubt if the agriculturist will gain anything in the long run by forming a pool, and are of opinion that pools will lead to clash of interests and unhappy disputes.

295. We have already referred to the possibility of establishing a jute control corporation to control the production and stabilize the prices of jute. We do not think it is possible to take similar action in regard to any other produce at present.

ANNEXURE.

Draft Bill by the late Mr. B. F. Madon, for the Encouragement of the Establishment of Independent Warehouses.

The establishment of independent warehouses for the principal staple products of India is a necessary corollary to the establishment of the Reserve Bank of India. There is a wide-spread feeling that adequate financial facilities are not available for Indian products whether raw products or manufactures, and there is an impression that this is due to present banking resources of India being under the control of foreign exchange and other banks, and that these banks are partial to foreign products or to Indian products destined for foreign countries, and devote their resources to such products only. This impression has led to great hopes being built on the future Reserve Bank for satisfactory facilities for the finance of Indian products in view of its great resources, but it is not appreciated that the real difficulty is not the partiality or otherwise of the exchange or other banks, but the want of some system by which goods and merchandise can be taken in pledge by banks on satisfactory lines. It will be readily understood that goods in the possession of the borrower himself cannot form a satisfactory security for advances on such goods, and that what is wanted is goods stored in warehouses under independent ownership, as warehouse receipts issued by such independent owners for goods lodged with them will give the necessary security to bankers, without requiring them to enter into physical possession of the same. It is Bills made against such goods that form the kind of Bills that a Reserve Bank can safely discount, and, as will be seen from the provisions of the Reserve Bank Bill, it is only through rediscount of such Bills that the vast resources of the Reserve Bank can be placed at the service of Indian produce and Indian manufactures. Such independent warehouses are practically non-existent in India and for the satisfactory working of our financial machinery it is essential that such warehouses should be brought into existence. To provide such independent warehouses, sufficiently large to meet the requirements of trade in such big centres as Bombay and Calcutta, and equipped on the most up-to-date lines for the handling of merchandise efficiently and economically, will call for a great outlay of capital, and it may fail to give an adequate return for some years in view of the present practice of merchants of storing their goods in their own godowns. It is confidently anticipated, however, that the advantages offered by such warehouses to both borrowers and bankers will come to be rapidly appreciated, and not many years will pass before every inch of space in such warehouses will be called for. It is feared, however, that until a few such warehouses prove a success and give an adequate return to

the investor, capital in this country, usually so shy, will not be forthcoming for the building of such warehouses. It is accordingly proposed that a guarantee of a moderate dividend be given by Government in order to bring into existence this very essential link in the fabric of India's financial organization. It is further proposed to create some machinery for inspection and supervision of warehouses that may wish to be licensed under the terms of this Act. Such machinery is necessary because the warehouse receipts are to form the basis for advances of large sums of money by bankers, and they would like to feel secure about such advances. Any attempt at supervision by them, however, is likely to be resented as due to suspicion of the honesty or the solvency of the warehouseman or the borrowing customer, while supervision by an impartial authority created for that purpose by Government is not likely to raise any such suspicions and may even be welcomed as inspiring greater confidence in warehouses subject to such supervision.

Draft of a Bill to encourage the establishment of independent Warehouses in India and provide for their proper supervision and control.

Whereas it is expedient to encourage the establishment of independent Warehouses in India, and arrange for their proper supervision and control, it is hereby enacted as follows :—

1. (1) This Act may be called the Indian Licensed Warehouses Act.

(2) It shall extend to the whole of British India and shall come into force from ——.

2. In this Act, unless there is anything repugnant to the subject or the context

(*a*) "warehouse" will mean every building, structure or other protected enclosure in which any raw produce or manufactures are stored,

(*b*) "person" will include two or more persons acting in partnership or a Company registered under the Indian Companies Act, 1913,

(*c*) "warehouseman" means a person lawfully engaged in the business of storing goods and merchandise including agricultural produce,

(*d*) "receipt" means receipt issued by the proprietor of a warehouse for goods entrusted to him for storage.

3. The Governor General in Council may on application to him issue to any warehouseman a Licence for the conduct of a warehouse or warehouses in accordance with this Act and such rules and regulations as may

be made hereunder, provided that such warehouse is found suitable for the storage of the goods or merchandise named in the Application for Licence and the warehouseman agrees to comply with and abide by all the terms of this Act and the rules and regulations made in pursuance of the same,

Provided further that each such Licence shall be on such terms and for such period as the Governor General in Council may deem fit and such Licence may be renewed extended or modified from time to time at the discretion of the Governor General in Council.

4. The Governor General in Council is hereby authorised—

(*a*) upon application of any person for a Licence to inspect or cause to be inspected the warehouse or warehouses contemplated in such application,

(*b*) at any time and from time to time to order inspection of any warehouse or warehouses licensed under this Act,

(*c*) to determine whether warehouses already licensed or for which licences may have been applied for are suitable for the proper storage of the particular class of goods or merchandise contemplated in the Licence or Application for Licence,

(*d*) to classify warehouses licensed under this Act according to ownership, location, construction, surroundings, capacity and other qualities,

(*e*) to prescribe within the limitations of this Act the duties of the warehouseman conducting warehouses licensed under this Act,

(*f*) to suspend and if necessary to revoke any licence granted under this Act for any breach of the provisions of this Act or of the rules and regulations made hereunder.

5. The Governor General in Council shall be entitled to collect a reasonable fee for examination, or inspection, of any warehouse that is the subject of an application for a Licence under this Act and shall also be entitled to collect a fee of not exceeding Rs. per annum for each licence or renewal thereof under this Act.

6. The Governor General in Council may upon presentation of satisfactory proof of competency issue to any person a Licence to inspect sample and/or classify any agricultural product or products stored or to be stored in a warehouse licensed under this Act according to

condition, grade or otherwise and to weigh the same and to certify the weight thereof upon condition that such person agrees to comply with and abide by the terms of this Act and the rules and regulations prescribed hereunder so far as the same may relate to him.

7. The Licence of any such person licensed under clause 6 may be suspended or revoked by the Governor General in Council if he is satisfied that such Licensee has failed correctly to inspect, sample, classify or weigh any agricultural product or products or has violated any of the provisions of this Act or of the rules and regulations made hereunder or has used his Licence or allowed it to be used for any improper purpose whatsoever.

8. Every warehouseman conducting a warehouse licensed under this Act shall receive for storage therein so far as its capacity permits any goods or merchandise of the kind customarily stored therein by him which may be tendered to him in a suitable condition for warehousing in the usual manner in the ordinary course of business without making any discrimination between persons desiring to avail themselves of warehouse facilities.

9. Every person who deposits goods or merchandise including raw agricultural products in a warehouse licensed under this Act shall be deemed to have deposited the same subject to the terms of this Act and the rules and regulations prescribed hereunder.

10. For all goods and merchandise including agricultural products stored in a warehouse licensed under this Act original receipts shall be issued by the warehouseman conducting the same but no receipt shall be issued for any such goods and merchandise or agricultural products unless the same are actually stored in the warehouse at the time of issuance thereof.

11. Every such receipt shall embody the following particulars namely—

(*a*) location of the warehouse,

(*b*) date of issue of receipt,

(*c*) consecutive serial number of receipt,

(*d*) statement whether the subject-matter of the receipt is deliverable to bearer or to a specified person or to his order,

(*e*) rate of storage charges,

(*f*) marks, number and weight of packages received provided however that where it is some agricultural product in bulk the description and quantity thereof shall suffice,

(*g*) the class and grade of any agricultural product received for storage where the depositor wishes it to be shown on such receipt in which case it shall be as certified by a person licensed under clause 6 of this Act,

(*h*) a statement that the receipt is issued subject to this Act and the rules and regulations made hereunder,

(*i*) if the warehouseman is owner or joint owner of any goods, the subject matter of such receipt a statement to that effect,

(*j*) a statement of the amount of advance made to the depositor or any other liability by the depositor due to the warehouseman for which he claims a lien, provided however that where the precise amount cannot be ascertained at date of issue of such receipt a statement that lien is claimed will suffice,

(*k*) such other terms and conditions as may be laid down by the Governor General in Council in this behalf,

(*l*) signature of the warehouseman or of some person duly authorised by him and the number of his Licence.

12. So long as an original receipt issued under this Act is outstanding and uncancelled by the warehouseman himself no other or further receipt shall be issued in respect of the same goods, merchandise or produce, provided however that in case a receipt is lost or destroyed a fresh receipt may be issued in identical terms and bearing the same date and number as the original on satisfactory security being given by the person asking for such duplicate on lines laid down in the rules and regulations made in pursuance of this Act.

13. Upon demand made by the holder of any such receipt and offer to surrender such receipt with such endorsement if negotiable as may be necessary and upon readiness to satisfy the warehousemen's lien and/or charges, and give proper acknowledgment or discharge, the warehouseman shall forthwith deliver the goods that may be the subject matter of such receipt provided however that all such receipts that come back into his hands duly discharged shall be forthwith cancelled by the warehouseman and preserved on his

record for at least three calendar years from date of such discharge.

14. Every warehouseman licensed under this Act shall keep in a place of safety complete and correct records of all agricultural products stored therein and withdrawn therefrom and of all receipts issued by him and of receipts returned and cancelled and shall conduct the warehouse in all respects in compliance with this Act and the rules and regulations made thereunder.

15. Every licensed warehouseman shall report to the Governor General in Council the condition of his warehouse or warehouses, and the contents, operation and business thereof in such form and at such times as the Governor General in Council may require.

16. The Governor General in Council may cause an inspection or examination to be made of any warehouse licensed hereunder and of the goods stored therein and of the books and records thereof at any time by person or persons appointed by him in that behalf.

17. Whenever as a result of such examination it is found that a warehouseman is not conducting his warehouse in accordance with this Act or the rules and regulations made hereunder or that he is charging unreasonable and exorbitant rates the Governor General in Council may order his Licence to be suspended and if satisfactory explanation of the breach of this Act or of the rules and regulations made hereunder is not forthcoming may order such Licence to be revoked.

18. The Governor General in Council may order to be published in the *Gazette of India* the result of any investigations under Clause 3 or under Clauses 16 and 17. There shall also be published in the *Gazette of India* the names and locations of warehouses licensed hereunder with the names and addresses of the Licensees as also a list of all licences revoked or terminated under this Act and the reasons therefor.

19. The Governor General in Council shall from time to time make such rules and regulations as may appear to him advisable for the proper carrying out of the provisions of this Act.

20. Every person who shall forge, alter, counterfeit, simulate or falsely represent or otherwise unlawfully use any Licence issued by the Governor General in Council under this Act or shall issue or utter a false or fraudulent receipt or certificate and every person who shall without lawful authority convert to his own use or use for the purposes of securing a loan or remove

from a Licensed Warehouse contrary to this Act or the rules and regulations made hereunder any goods or merchandise stored or to be stored in such warehouse and for which Licensed Receipts have been or are to be issued shall be deemed guilty of a misdemeanour and shall upon conviction be liable to a fine not exceeding ten thousand rupees or double the value of the goods or merchandise involved whichever is the greater or imprisonment for a period not exceeding twelve months or both at the discretion of the Court and the owner of the goods or merchandise so converted used or removed may in the discretion of the Governor General in Council be reimbursed out of the fines so collected to the extent that he may not otherwise have been reimbursed.

21. Any person who shall with intent to deceive draw a false sample or shall wilfully mutilate or falsely represent a sample drawn under this Act or shall classify grade or weigh fraudulently any agricultural products stored or to be stored under the provisions of this Act shall be deemed guilty of a misdemeanour and upon conviction be liable to a fine of rupees five hundred or imprisonment for three months or both in the discretion of the Court.

22. It shall be open to the Governor General in Council to offer an inducement to the establishment of Licensed Warehouses as contemplated in this Act by way of grant of land free or at a nominal rental or by a subsidy towards the cost of construction or by guarantee of reasonable return on the total capital invested or in any other way that may appear most suitable to the Governor General in Council in such place or places and on such terms and conditions as may appear desirable to the Governor General in Council provided however that where the inducement to be offered is a guarantee of a reasonable return on capital it shall not exceed a return of more than five per cent per annum and provided further that where any payment by the Governor General in Council becomes necessary under any such guarantee a separate account shall be kept of the same and Government shall be entitled to one-half of all earnings of any warehouse so guaranteed in excess of a return of six per cent on the capital invested until the amount paid to such warehouse in order to implement the guarantee given to it and standing at the debit of such separate account shall have been entirely wiped off.

CHAPTER XIV.

RURAL FINANCE—*contd.*

RURAL AND COTTAGE INDUSTRIES.

296. It will be convenient to confine ourselves in this chapter to the problem of financing of cottage and rural industries which more appropriately come under the head of "village and domestic industries" providing subsidiary occupations to the agriculturists. The other types of rural industries of the ordinary factory type located in rural areas and which are more or less organized industries are more conveniently dealt with in the chapter dealing with industrial finance, along with major industries. The Provincial Committees have mentioned among cottage and rural industries of the "village and domestic type" handloom weaving, silk, gold and silver thread, brass-ware, bell-metal, bidi and cheroot-making, mat-making, gur-making, hand hulling, extraction of oil in the village oil press, dairy farming and the work of the village artisans generally.

297. The first question that presents itself in this connection is whether the agriculturist has the requisite leisure profitably to pursue one or other of these small industries with a view substantially to add to his income from agriculture. On this question the Royal Commission on Agriculture have expressed themselves in these words: "A prominent feature of Indian agriculture is the amount of spare time which it leaves to the cultivator. This varies very greatly according to the local agricultural conditions, but it may be assumed as a broad generalisation that by far the greater number of cultivators have at least from two to four months of absolute leisure in the year. The methods of bringing within the cultivator's reach industrial opportunities to fill up his spare time must vary with local circumstances. As agriculture in the greater part of India cannot offer employment for the whole of the year, the problem is to suggest lines of work which can suitably be undertaken by the cultivator or his family in their spare time and without detriment to the cultivation of their land". We agree with the Royal Commission and with most of the Provincial Banking Committees, and hold that by far the greater number of agriculturists in India have the time at their disposal to pursue profitably one or other of the small village and domestic industries with a view to add to the income from agriculture. The Royal Commission proceed to discuss (1) the industries pursued by village artisan, (2) the handloom, pottery and rope-making industries, (3) sericulture, (4) poultry rearing, and (5) lac industry. Apart from

the provision of finance the factors that tend to encourage the development of these industries are, in the opinion of the Commission: (1) development of new ideas such as the supply of attractive patterns, (2) careful and thorough instruction in modern processes, and (3) finding of markets in and outside the locality. The Commission have said that these forms of assistance would best be given by Co-operative and Industries Departments to artisans organized on the co-operative basis. We are informed that steady and strenuous diffusion through specially created services of advice, information and education has achieved much in the development of rural industries in Germany and certain other countries. The following quotation from the United Provinces Committee's Report is relevant in this connection: "Much can be achieved by State aid and supervision as German experience proves. In that country, thanks to the State's economic policy, small scale industries employ about two-fifths of the population and more than 90 per cent of the industrial establishment * * * * Many industries, however, were "created" by State-aided action, for example, watch-making in Saxony and the making of pencils in Bavaria. Thus, new industries have been introduced on a large scale in those districts where such introduction was most advantageous. A system of farming combined with industry, which gives regular employment throughout the year, enables the agricultural countries of Europe to maintain a density of 200 to 300 persons to the square mile. In our province where the density is from 500 to 900 in the river valleys, and where agriculture cannot normally employ the population for more than 7 months in the year, the need for rural industries as subsidiary occupation to agriculture is far greater. For a stay-at-home population like ours, enforced idleness during a year of scarcity is a paradox, which indicates the lack of balance of occupations in the Indian village which Famine Commissions have repeatedly sought to remedy".

298. The next question that confronts those engaged in the promotion of village and domestic industries is what the chances are of success of the rural industries and whether they can really stand competition with the organized factory industries. In recent years the Provincial Governments have set up special departmental agencies to make a careful survey of the various cottage industries which are still extant in their provinces, and to examine the prospects of their future stability or expansion. A special committee was appointed by the Madras Government to report on the prospects of the handloom industry, and the report recently published gives some interesting figures which show that in some varieties of textiles, the cost of production on handlooms is less than that on power looms. A bulletin* recently issued by the Department of Industries, Madras, shows that while the imports of foreign cloth have fallen after the War by 1,064 million yards per annum, the

* Bulletin No. 12, Handloom Weaving in the Madras Presidency, 1930.

handloom products have increased by 199 million yards per annum. We should also like to refer here to the following passage at page 57 of Clow's "The State and Industry";

"While acknowledgment must be made of the stimulus given to the industry by the political movement in favour of hand-woven cloth, it appears to be the case that, at present at any rate, the hand-loom weaver can more than hold his own against the mills in simple economic competition."

The Royal Commission on Agriculture have, however, uttered a general note of warning in these words: "Even with the aid of new ideas and assistance in training and marketing, the contributions which several rural industries can make in reducing the heavy pressure on the land is infinitesimal and in the nature of things they cannot, as a rule, hope for ever to survive the increasing competition of organized industry". The Bihar and Orissa Committee strike a similar note, but they give particulars of some flourishing cottage industries in their report.

In spite of their decline, cottage industries in different provinces still employ a large population. In Bihar and Orissa, we are told that no less than 2½ million people are supported by these industries. In Bombay 300,000 people are employed in the hand-loom industry; and 13,000 people are employed in the gold thread industry in Surat. The hand-loom industry in the Punjab supports 192,000 weavers.

Existing position in the Provinces.

299. We give below a brief description of some of the rural industries dealt with by the Provincial Committees.

(i) *Hand-loom weaving—Bombay.*—The weavers are of three kinds: (1) independent weavers who work at home, (2) *karkhandars* who have weavers working under their supervision, and (3) dependent weavers perpetually in debt either to a dealer in yarn or a *karkhandar* and relying on him for supplies. The independent weavers and *karkhandars* receive yarn at a high price on credit on condition that the manufactured goods are sold through the lender. *Karkhandars* and the independent weavers who work with their own capital either sell through the local *dalal* or an *adatya* to the merchant and, if they sell direct, they often find that purchasers insist on credit for a month or two during which they have to find accommodation from the *sowcar* at heavy rates of interest. In addition to these difficulties, the products of the industry have to compete with machine-made goods. Co-operative industrial societies have been formed to enable the weavers to overcome these difficulties; but compared to the magnitude of the industry, the number of persons helped by the movement is exceedingly small. One notable feature of these societies is that they have comparatively small arrears.

Hand-loom weaving—Madras.—There are four classes of weavers :

(1) Those that weave cloth for ryots who give the yarn and pay for the labour. This system is no longer common.

(2) Those who buy yarn, make cloth, sell it in the local *shandy* or hawk it round the villages, and carry on with the sale proceeds.

(3) Those who buy yarn from the local dealer on credit, selling back the cloth to him.

(4) Those who are supplied with yarn and finance and return the cloth to the *sowcar* or master-dealer.

The fourth class is generally seriously in debt while those in the third class are slightly better off. The former are not at liberty to sell when they like, and are bound to sell their goods at an agreed price to the master-weaver or the merchant to whom they are indebted. Those in class (2) are in a somewhat higher stage economically. The difficulty of marketing is great on account of the fact that the mill-made cloth governs the price of all. The Industries Department has done much to improve the industry, but with existing difficulties efforts can only have very slow results. The Co-operative Department has organized societies of various kinds, to provide raw material and to grant loans and to facilitate marketing. There were 45 purchase and sale societies exclusively for weavers on the 30th June 1929, which sold to the members raw material worth about Rs. 1 lakh.

Hand-loom weaving—Central Provinces.—There has been a considerable decline in the number of people engaged in this industry due to the competition of mill-made cloth and to the financial and marketing difficulties of the weavers. The Weaving Department has been studying the apparatus of weaving and has introduced a number of improved fly-shuttle sleys in 1,750 centres capable of increasing the output by 75 per cent. No attention has, however, been paid to proper marketing facilities for the increased output, with the result that in one centre the depression in prices due to overproduction made the weavers discard the improved fly-shuttle. The average small weaver purchases raw material on credit and pays heavy interest charges concealed in high prices. After manufacture, he has to sell the finished product for whatever price he can get.

Hand-loom weaving—Punjab.—About 200 co-operative societies have been formed to finance weavers. These have brought down the cost of raw material to the weavers by 15 to 20 per cent. They have not however been able yet to tackle successfully the problem of marketing, and the result has been that the weaver gets less favourable terms now from the middleman than before when the weaver was dealing with the middleman throughout. A sales-

depôt has been started in Lahore under a manager specially selected for his business capacity. The Committee refer to the results of certain special enquiries made by co-operative industrial inspectors in five selected villages in five districts. Owing to competition with foreign imports and want of organization the weaving industry was found to be declining.

(ii) *Khadi production—Bihar and Orissa.*—The business is run by the Bihar branch of the all-India Spinners' Association which sells raw materials and buys the finished product. It also supplies the capital, managing ability and marketing organization which the spinners and weavers need. Most of the materials are supplied at cost, or at the lowest possible price, and the services of many able workers are rendered free. The Association suggests improved methods and appliances with a view to increase technical efficiency. The entire capital of about Rs. 2 lakhs engaged in *khadi* production in Bihar, with the exception of Rs. 4,000 deposits from weavers, has been supplied by the central fund of the Association. It is not known whether any interest is paid for this advance or for the advances in kind to the spinners and weavers. Under this system, *khadi* worth Rs. 2½ lakhs was produced in about 40 centres, *khadi* worth Rs. 3,17,000 was sold in the year 1928-29 and about Rs. 50,000 was paid in wages to weavers. There were inevitable losses on pioneering work in the first year, but last year, the third year of operation, showed a small profit. The principal activity in this business is the production of yarn, by the use of the *charka*, in the hands of persons who have had no previous experience in spinning. The weaving part of the business is carried on by the ordinary rural weavers. The organization has not been working long enough to judge whether it is likely to be a permanent financial success. Some of the pioneer centres have been taken over by independent business organizations but it is too early to say whether profits will accrue. In the slack season, when production is at a maximum and sales at their lowest level, the Association is compelled to take advances from banks on overdraft account against the security of its stocks.

(iii) *The gold and silver thread industry—Bombay.*—The organization is similar to other cottage industries. The market for the finished product is spread all over India and the period of sale operations is prolonged. The bigger *karkhandars* are sometimes able to obtain deposits from the public. The smaller merchants rely on indigenous bankers or bigger merchants. The indebtedness of dependent workers leads to sweated labour.

(iv) *The Bhagalpur silk industry—Bihar and Orissa.*—This is now partly an organized and partly a cottage industry, 1,600 handlooms being owned by weavers and 250 by the factories. But the factories also finance and market the goods of the weavers who are

in chronic debt to them and other merchants. The weavers working in factories are equally indebted. No weaver would work on hire for a master unless he is paid Rs. 150 to Rs. 200 in advance. No interest is charged for this advance, but if the weaver changes his master it must be repaid by the new master. The independent weavers borrow against jewellery or against personal security. Only 30 per cent are free from debt. The rest are practically tied to their *mahajans* who have a sort of trade combination to protect their unsecured debts. No weaver can go to another *mahajan* without a certificate of discharge from his old *mahajan*. A weavers' co-operative society was organized to help them, but the improvidence, dishonesty and lack of security of the weavers proved such stumbling blocks in the way of success that a sum of Rs. 80,000 was lost in the venture. Advances in the shape of raw materials instead of cash were tried by the Bhagalpur Central Co-operative Bank, but they were converted into cash by the thriftless weavers by selling them at less than market prices. Government have started a Silk Institute at Bhagalpur to teach the weavers the use of improved methods and appliances with the object of helping them to hold their own, but the independent weaver suffers in competition with the factory owners, and the industry is thus slowly progressing towards its inevitable end, the factory stage.

(v) *Silk-worm rearing and silk weaving—Assam.*—The rearing of the various kinds of silk worms, *endi*, *muga* and *pat*, and silk weaving are important cottage industries in the Assam and Surma valleys. Most of the weaving is for use in the household, but there are professional weavers also who depend on the industry for their livelihood. The Superintendent of sericulture is devoting much attention to the rearing of the *pat* worm which yields fine silk, and progress has been made through the aid of six demonstrators. There is a good market outside Assam for *endi* and *muga* cloths, the price of which has greatly increased in the last ten years. Witnesses before the Provincial Committee have taken an optimistic view of the market. The Government emporium at Gauhati buys cloth from the middleman and from the actual weaver and sells it, the weaver receiving the sale proceeds less a deduction of half or one anna in the rupee. The Committee doubt whether much financial assistance is required by the rearer of silk worms. If, however, some help is required, they think that a small grant from the Department of Industries might be made. The Gauhati emporium supplies good yarn at a reasonable rate to the silk weavers and finds a market for the finished goods. For further progress in this direction, more capital is said to be needed and the Committee have recommended that Government should increase the working capital of the emporium.

(vi) *Brassware industry—Madras.*—This industry thrives in Kumbakonam where there are about 100 smithies run by workmen and their families and 125 run by master-workmen employing other workers under them. The owners take brass-sheets from the traders, receive wages in advance either in lump or instalments at stipulated rates, manufacture the articles required by the traders according to their specification and deliver the goods within a month, failing which they pay interest at 12 per cent beyond that period. The master-workman gives advances to the workmen under him out of the advance received from the traders and pays them wages at a rate lower than that paid to him by the traders. Some master-workmen buy brass-sheets on their own account either on credit from traders or from their own capital if they have any. In these cases they sell their finished articles to dealers in town for ready cash as they cannot afford to sell on credit to retail dealers outside the towns, but the traders appropriate the profit for themselves whether they give brass-sheets to the workmen or the latter buy them on their own account. Workmen have generally money dealings only with traders, who give them not only their wages in advance, but also lend additional sums if required. The owned capital of traders is about Rs. 10 lakhs with a borrowed capital of an equal amount. Bigger traders who have their own capital do not borrow, but the smaller traders borrow from banks and occasionally from indigenous bankers. Landholders and others who have surplus cash to invest sometimes deposit their money with some of these traders. The traders give their brass-sheets to workmen and pay them wages in advance. The finished articles are sold mostly on credit to dealers in various parts of the Presidency and in Ceylon. Articles are also sent for ready cash or against D/P drafts to the Telugu districts. A small percentage of the articles is also sold for cash to local consumers. The industry is practically run by capitalist traders, the workers getting only their wages.

(vii) *Brass industry—Central Provinces.*—The artisan is either paid wages or remunerated for his manufacturing charges. Some artisans borrow money from money-lenders for the purchase of brass-sheets for their business.

(viii) *Bell-metal industry—Central Provinces.*—This is a flourishing industry and the bulk of the wares is disposed of locally. The big producers sell to itinerant traders on credit, and the latter sell to villagers on credit for four to six months, *i.e.*, till harvest. The itinerant trader has to pay a higher price for credit purchases and in addition interest at 1 per cent per month. Some of the difficulties to be contended with are—

(1) Competition of articles from Bankura (Bengal) due to the inferiority of the metal and lower cost of manufacture brought about by labour-saving machinery. There is also the competition of aluminium and German-silver ware.

(2) One big firm has obtained an advance from the local branch of the Allahabad Bank, but the terms are not long enough to suit the system of deferred sales. Some Poona and Calcutta firms from which raw material is imported grant credits for a month at a time.

(ix) *Bidi-making—Central Provinces.*—This is one of the most promising forms of subsidiary industry that can be developed in the immediate future. The actual manufacturing of *bidis* is a simple process and is easily learnt. Provision for the supply of suitable Bombay tobacco can be made at reasonable terms and the only other important raw material, *viz.*, *tendu* leaves, can be had in abundance in the province. The ordinary *bidi*-maker is paid 7 annas a day for 1,000 *bidis* and many of them can earn about 12 annas a day, if not more. The *bidi* establishments are largely managed by Gujeratis and Marwaris, who have plenty of capital of their own. The Committee's enquiries showed that the existing factories do not stand in need of financial assistance.

(x) *Cheroot industry—Burma.*—The principal employs local girls to make the cheroots by hand at his house, and he buys the tobacco and other materials with money borrowed from the local Chettiyars or other lenders commonly without security.

(xi) *Bamboo mat industry—Assam.*—Advances are given by middlemen in the shape of raw materials at high prices, the finished product is sold to them at low prices, and there is consequent unremunerative business. The only way to improve the situation is by organizing co-operative societies.

(xii) *Carpet-weaving, toy-making, etc.—United Provinces.*—Many small industries are followed in the province of a type suitable to provide the cultivator with occupation for his spare time. Carpet-weaving is an important rural industry. The dealers usually supply yarn and dyes to the weaver, who advances to the journeymen workers. In certain villages of the Ganges valley the cultivator follows the profitable industry of turkey-breeding. Flower gardening and scent-making are also carried on in various parts of the province, and oils and scents command a large sale in the towns of Bengal and Bihar. In the sandy *khadir* along the Ganges and the other rivers, the making of ropes and baskets from grass or reeds is an important subsidiary industry. Blanket weaving is a famous industry in the sub-montane tracts and in some districts of the north-west, the women spinning wool and their husbands spinning during spare hours in many districts.

(xiii) *Poultry-farming—United Provinces.*—Much has been done to improve the poultry of the province during the last eight or ten years. Government have given assistance to the United Provinces Poultry Association and the Itah Mission Farm, both of which have done much to improve the breed of the country fowls.

(xiv) *Dairy-farming—Assam.*—Four milk supply societies financed by the Sylhet central bank have been formed and the members who are also cultivators are financed to enable them to buy good cows and to supply pure milk at a moderate price. The sale of milk in Sylhet is arranged by the central bank on behalf of the societies. The loan is repaid by the members in easy terms by the daily supply of milk. It is proposed to have in due course a milk union to supervise the working of the societies. Government have recently granted a loan of Rs. 5,000 free of interest for five years and also lent the services of the Manager of the Upper Shillong Farm for organizing and supervising the societies. In certain other parts of Assam large-scale dairy-farming is carried on, financed by Marwaris. There is a ready market for the products, and especially for pure milk.

Work done by Industries and Co-operative Departments in the Provinces.

300. The Department of Industries in Assam is introducing improved looms on the hire purchase system through co-operative societies and granting industrial loans at 6 per cent interest. The Government emporium at Gauhati is providing a market for silk cloths, buying both from the middlemen and the actual weavers. There is a weaving institution at Gauhati and a new weaving branch attached to the Sylhet Training School. There are also touring weaving parties.

The Government of Burma have for about ten years employed an officer as superintendent of cottage industries for the purpose of promoting cottage industries and improving their materials, appliances and technique, and in particular to assist them in obtaining the credit they need. The officer works in close co-operation with the Co-operative Department. Besides special co-operative societies formed for particular industries, urban co-operative banks also supply credit to artisans and small industrialists. The rate of interest on loans from co-operative societies is 1¼ per cent per mensem.

Though the Industries Department, which was established in Bihar and Orissa in 1920, has some duties to perform for organized industries, its main function has hitherto been to assist the cottage workers. In this task it works in close touch with the Co-operative Department. Between them the two departments endeavour to provide the cottage workers with (1) technical assistance, (2) marketing facilities, and (3) finance. They have, to some extent, been successful in giving technical assistance especially to weavers by introducing more efficient hand-looms and supplying new ideas for patterns. Technical assistance has been supplied both by central institutes at which workers can be trained and by peripatetic instructors. The Cottage Industries

Institute has done something in the sphere of marketing, and central banks have also attempted to market the products of the members of special societies such as weavers and bell-metal workers. Through these societies too finance has been supplied. Under the Bihar and Orissa State Aid to Industries Act, provision is made for the grant of assistance by Government in the form of propaganda, demonstration and technical assistance. But the Provincial Committee reports that the possibilities of developing cottage industries in rural areas have not been as well examined as one should desire.

The Co-operative Department in Madras along with the Industries Department has done a great deal of work in improving cottage industries, and in organizing societies of various kinds to provide raw materials, to grant loans and to facilitate marketing. Under the Madras State Aid to Industries Act, Government assistance is available for cottage industries.

The United Provinces Committee report that the Industries Department has attempted with success to improve technical and industrial training. The Provincial School of Arts and Crafts devotes itself to artistic education, though of late the school is reported to be more concerned with profit than art.

301. There is little doubt that one of the main reasons for the decline of some of the cottage industries is the lack of interest taken by Government in the past, at any rate up to 1921, in the fostering and development of these industries. The circumstances which led to this situation are detailed more fully in Chapter XVI; and we should here like to observe that the policy therein outlined in regard to the attitude of Government towards industries in general before 1921 applies also to cottage industries. After 1921 some progress has been made in several of the provinces in the direction of the development of these industries, but it will take some time to make up the lee-way arising out of the policy of inaction in previous years. In view of the fact that some of these industries provide subsidiary occupations for the large mass of the agricultural population, while some others are likely to provide alternative occupation for people now engaged in agriculture, we consider that provincial Governments should devote their earnest attention to the development of these industries.

302. From a study of the Provincial Committees' Reports we have come to the conclusion that by the introduction of new and the expansion of the existing industries much can be done to provide the cultivator with a suitable subsidiary occupation for his spare time. Despite a complete lack of organization there are many thriving industries with established markets both in India and overseas. All the industries stand in need of organization and guidance in the selection of designs and processes, assistance in obtaining suitable tools in marketing, in the diffusion

of market intelligence and in the advertising of their wares. The cheap supply of power for agricultural purposes is likely to stimulate some of the existing industries and also to enable new industries being started. There is a good deal of useful work that can be done by both the Co-operative and Industries Departments in the introduction of new and the development of existing cottage industries which will ultimately result in relieving the poverty of the small cultivator and raising his standard of living.

303. A common feature about these industries is that the people engaged in them do not, as a rule, make for stock but only make to order, having received the necessary raw material or an advance in money. This is said to be due to a variety of reasons, *viz.* :

(1) lack of capital;

(2) uncertainty about marketing products due to importation of cheaper and more convenient substitutes;

(3) unwillingness to take up contracts for continued regular supply due to inability to organize the business so as to obtain uniformity of quality in the raw material and in the workmanship;

(4) need for co-ordinating specialized functions in such industries;

(5) the lengthy technical processes involved in some industries such as calico-printing and the inability of a small artisan to lock up his capital for long; and

(6) the seasonal nature of the industry and the facilities afforded by the middleman to keep the artisan going during the slack season.

304. The result of working on raw materials supplied by dealers on credit and selling the finished products to the dealers is said to be generally to the detriment of the artisan, as he has to pay a higher price for the raw materials supplied on credit in addition to interest on their value, and is allowed lower prices on the manufactured goods. In our opinion, the remedy for this state of affairs lies in the formation of co-operative societies for helping the artisans, though the general experience of the working of co-operative artisan societies has not been satisfactory so far in most of the provinces. Some industrial co-operative societies are, however, working successfully. For instance, the Basin Weaver Society is reported by the Central Provinces Committee to be working very successfully. Other instances are also found in other Provincial Committees' Reports. The chief difficulties to be surmounted are generally :—

(i) indebtedness of the artisans,

(ii) lack of organization among them, and

(iii) marketing difficulties.

PRESENT FINANCIAL FACILITIES.

305. The financial needs of the rural and cottage industries may be summed up under three heads:

(i) purchase of raw materials;

(ii) working expenses during the period of production; and

(iii) financial accommodation between the period of production and the final disposal by sale in the up-country markets.

306. The financial agencies are:

(i) the urban and rural money-lender;

(ii) the merchant or dealer in raw materials or produce of an industry;

(iii) the co-operative banks and producers' societies;

(iv) the Imperial Bank of India and the joint-stock banks; and

(v) Government through the Department of Industries and the Co-operative Department.

Several Provincial Committees report that the Imperial Bank of India and the joint-stock banks provide practically no finance at all to these rural industries. The enterpreneur is, under the existing organization of small industries, the dominating figure. His methods and the money-lender's methods are reported to be far from satisfactory. The rates of interest charged by them, in most cases, are exorbitant. Some independent artisans work on their own. If they are part time agriculturists owning land, it is easy to raise money on its security at the usual rate, but where this credit resource is lacking, they have to borrow from the money-lenders who buy their finished product and who sell the raw materials. As examples of the interest rates paid by traders and artisans, the following may be quoted from the Provincial Reports. The weaver in the Punjab pays interest varying from 12½ to 37½ per cent. The master workmen in the brass industry in Madras buy their sheets on credit from traders paying 12 per cent interest. Artisans in this industry in the Central Provinces have to pay money-lenders interest at 9 to 15 per cent per annum. In the case of the bell-metal industry the firms who supply raw materials charge interest at 7½ to 12 per cent per annum. Weavers in the silk industry in Bhagalpur pay 12½ per cent on loans against ornaments and higher rates on loans on personal security. The Chettiyar's rate of interest to people engaged in the cheroot industry in Burma are 1½ to 2 per cent per mensem. In Bombay bigger *karkhandars* pay 3 to 4½ per cent on deposits from the public; smaller merchants pay 6 to 9 per cent on loans from indigenous bankers and bigger merchants.

WHAT CREDIT AGENCIES CAN DO.

307. A proper agency for financing the rural industrialist on cheap terms and for rescuing him from the clutches of the money-lender and the middleman, where these drive unfair bargains with him regarding supply of raw material and sale of finished product, appears to be very essential. In spite of the not very hopeful experience in the past, we think that co-operative industrial banks or well organised co-operative urban banks are the best agencies to meet the requirements of these industries satisfactorily. We recommend that co-operative institutions should be established to finance the rural industries on a larger scale than at present. German experience in the field of co-operative organization for small industries and small traders and retailers is worth studying, and this might be done by deputing men to go and study the problem on the spot, as it is not possible to lay down general principles in the case of small industries as can be done in the case of large industries. Such institutions should be able to tackle the problem of indebtedness of the artisans, and by propaganda and education remove the existing defects in their character and efficiency. We recommend that Government should give assistance in connection with propaganda and education and should also be prepared to provide funds for the movement, if it grows on a large scale and is in need of such funds.

TECHNICAL ADVISER TO INDUSTRIAL SOCIETIES.

308. It is not necessary for the co-operative societies dealing with such industries to have industrial or technical advisers on their permanent staff. A manager with ordinary commonsense should be able to carry on, and there should be no difficulty in securing valuable advice and guidance from the people in charge of large-scale industries without any cost.

WAREHOUSES AND CO-OPERATIVE SALE SOCIETIES AND DEPOTS.

309. The Provincial Committees have also recommended the establishment of licensed warehouses and co-operative wholesale depots for storing and sale of products of cottage industries. We are in agreement with this recommendation, and we hope that with the help of these warehouses and wholesale depots, and under the competent guidance of the provincial marketing boards which we have recommended elsewhere, most of the marketing difficulties will be reduced, if not altogether removed. Co-operative sale societies could also be of much help in opening markets for products of rural industries in commercial centres.

310. We may refer in this connection to the useful work done by the Arts and Crafts Emporium, Lucknow, which is reported to have established a contact between the products of the cottage and village industries in the province with internal and external markets. We support the recommendation of the United Provinces Committee that its activities should be extended in various directions such as imparting commercial and technical education to the industry and trade, assisting in the production of approved designs prepared by the School of Arts and Crafts, advertising the artistic products of the industries and acting as the headquarters of a system of sale depots not only in the province but also in the major towns of other provinces.

STATE AID TO INDUSTRIES ACT.

311. The Central Provinces and Bengal Committees have recommended the enactment of State Aid to Industries Acts in their provinces on lines similar to those in Madras and Bihar and Orissa. We commend these proposals to the Provincial Governments for their consideration and we are glad to note that such a Bill has been brought before the Bengal Legislative Council, though we have no information regarding its progress. We refer again to these Acts later on in paragraphs 414 to 418 in connection with organized industries. The provincial industrial corporations which we have recommended elsewhere, may also help rural and cottage industries.

CHAPTER XV.

FINANCIAL REQUIREMENTS OF OTHER CLASSES OF POPULATION.

312. We have dealt in the preceding chapters with the financial requirements of the agriculturist and the people engaged in small rural and cottage industries. We shall deal in later chapters with the financial facilities required by the classes of population engaged in small, middle-sized and large industries, and in foreign trade. In this chapter we shall devote some attention to the needs of the intermediate classes of the population, namely, the middle class people, small traders and shopkeepers, salaried classes, contractors and labourers.

Middle Class Population.

313. In order to illustrate the problems of the middle class population we summarize below the position of this class from the Reports of some of the Provincial Committees.

Bengal.—Credit is required for financing individuals to take up definite occupations. There is no association or institution for this purpose which could give credit on the personal security of the borrower or on the guarantee of a third party, but the need for such institutions is great owing to the growing unemployment among the middle class population. Financial accommodation is also required by this class for the acquisition of houses and other tangible assets, loans for which can be repaid in instalments.

Bihar and Orissa.—Loans required by professional men and others engaged in miscellaneous occupations are mostly on the security of house property, jewellery, fixed deposits, insurance policies and stock exchange securities. Very few banks lend against personal security alone, the money-lender charging high rates of interest being the usual resort in such cases. The insurance companies and the Imperial Bank of India advance only against first classs security such as Government securities and insurance policies, but such advances are not large. Joint-stock banks in the province take a much larger share than might be expected in financing this class of population and it is said that the high rates of interest so obtained have the unfortunate tendency of diverting their resources from productive credit to consumers' credit.

The Central Areas.—The Central Areas Committee have also urged the need for financial accommodation for the urban community and have referred specially to the facilities for acquiring houses.

Burma.—The Burma Committee refer to the example set in New York by the Personal Loan Department of the National City Bank of New York which grants loans of Rs. 150 to Rs. 3,000 to any person who earns a regular income or has his own business, on personal security, on the security of guarantors, or on suitable collateral security. Facilities are given for repayment by monthly instalments and arrangements are made for the insurance of the life of the borrower. Loans are also required to pay medical and educational expenses, taxes or insurance premia and for other objects such as the purchase of household equipment.

Salaried Classes.

314. The Bihar and Orissa Committee report that a large majority of the salaried classes borrow from money-lenders at ruinous rates of interest. The Central Areas Committee also refer to the need of the clerks in Government and Municipal services for finance for purchase of houses, marriages in the family and education of children and add that some of them are actually paying high rates of interest varying from 37½ to 300 per cent.

Contractors.

315. Contractors form a large class of urban borrowers in all provinces and have often to borrow for carrying out their contracts. Like agriculturists and traders they are at present compelled to pay high rates of interest and their loans are from joint-stock banks and urban money-lenders on the security of house property, jewellery and cash certificates. In many cases, no security is ordinarily available and consequently they have to subject themselves to paying the heavy charges of money-lenders.

Small Traders and Shop-keepers.

316. Small traders and shop-keepers also find difficulty in securing credit on reasonable terms and have to depend upon money-lenders for finance. These traders and shop-keepers have themselves to give credit to most of the salaried and professional classes in the cities.

Co-operative Urban Banks.

317. Most of the Provincial Committee agree that co-operative credit societies of the Schultze-Delitzsch type are the most suitable banking agencies for all middle class and working people other than agriculturists. We agree with the Provincial Committees and recommend that limited liability co-operative societies, generally known as urban banks, should be established, wherever necessary

facilities and conditions exist, for the benefit of these classes of the population. We have suggested in connection with the agricultural primary societies that their membership must not be confined to a special creed, caste or calling or to a special class of agriculturists. In the case of these urban banks, we do not see any objection to special societies for salary-earners if these societies are looked upon as thrift societies for collecting and investing the savings of their members. The duty of these urban banks should be to try to do for the small trader, the small merchant and the middle class population what the commercial banks are doing for the big trader and the big merchant.

318. The following statement giving the number of members and capital of the urban banks working in the various provinces on the 30th June 1930* shows the progress of this class of co-operative society in India and the vast scope that still exists for their further expansion in the future :—

Urban Banks.

——	Number of Societies.	Membership.	In thousands.			
			Share Capital and Reserve.	Deposits.	Loans.	Total Working Capital.
			Rs.	Rs.	Rs.	Rs.
Ajmer-Merwara . .	47	1,800	90	3,26	28	4,44
Assam . . .	48	8,644	3,51	10,71	26	14,48
Bengal . . .	Not furnished.					
Bihar and Orissa .	79	16,214	10,95	12,93	1,60	25,48
Bombay . . .	76	120,058	65,80	2,10,59	6,08	2,82,47
Burma . . .	91	10,584	17,95	10,14	89	28,98
Central Provinces	Not furnished.					
Delhi	Not furnished.					
Madras . . .	946	203,714	84,64	64,47	1,06,24	2,55,35
North-West Frontier Province.	Not furnished.					
Punjab . . .	505	29,877	Figures not available.			
United Provinces	71	20,568	9,67	8,85	43	18,95

* The dates vary with reference to the co-operative year in each province; the latest figures available are given.

319. In view of the importance of the expansion of urban banks, we have discussed this subject in some detail with the foreign banking experts and we make the following recommendations :—

(i) *Area of operation.*—The development of large urban banks should be encouraged though restrictions on the area of operation may be considered with reference to the extent and population of the towns served by these banks so that the operations of the bank may not become unwieldy.

(ii) *Share Capital.*—In view of the fact that urban banks are on the limited liability basis, unlike agricultural credit societies where the liability is unlimited, we see no objection to members of the urban banks being asked ordinarily to take up reserve liability not exceeding twice the subscribed share capital. Where the share capital is fixed at a relatively small figure, the reserve liability may, however, be correspondingly high in order to create a sound business basis. We consider this kind of additional liability a good safeguard for creditors in case of bankruptcy, and it is calculated to enhance the confidence of the investing public.

(iii) *Management.*—It is necessary to have as manager a qualified person trained in banking. This necessity arises from the fact that there is not the same mutual interest in such institutions as is expected to exist in agricultural credit societies. As in the case of the latter societies, we do not see the necessity for creating in these urban societies supervising boards apart from the managing committees.

(iv) *Business.*—There is no objection to these institutions doing all kinds of banking business to meet the requirements of their members, but they should be debarred from entering into forward delivery contracts in any market either on their own account or on account of the members. As money circulates more rapidly in urban centres than in villages, these urban banks, on account of this special feature, do modern advanced banking business and deal with their members on current account. The granting of cash credits, dealing in cheques, collecting and discounting inland bills, clearing and remittance business have all been permitted nearly everywhere for urban co-operative credit societies and should be encouraged in India also.

(v) *Advances.*—Advances should ordinarily not be for long term, but if the banks have adequate resources, they can grant intermediate credits up to 50 per cent of their share capital and reserves and 75 per cent of the long-term deposits, in conformity, in the latter case, with the periods of maturity.

We agree with the Bombay Committee that urban banks should not be allowed to finance joint-stock concerns as they are

not intended for such concerns. Urban primary non-credit societies may be financed by urban banks according to special local conditions.

We recommend that urban banks may be permitted to advance money on the security of gold and silver ornaments, on the former up to 75 per cent and on the latter up to 50 per cent of the value. Such loans need not necessarily be limited to the individual borrowing power of the members as fixed by the managing committee. Greatest care is, however, required in valuing and holding in custody gold and silver pledged with the bank. Advances to traders may also be given on sound and authorized warehouse receipts. We also recommend that so far as possible these urban banks may adopt the Morris plan of advancing and recouping loans, particularly to the salaried classes, whose character and income, as well as sureties, are sound. The principal features of the plan are usually as follows :—

The Morris plan bank is organized to meet the credit needs of the salaried men who cannot approach the regular banks. In the case of the salaried man the following procedure is adopted. Loans are made on the applicant furnishing references as to his character and income and two good sureties. If he borrows $50·00, interest is deducted at 6 per cent. for the year and he is paid $47·00 on his agreeing to become a subscriber to the C class certificate on the basis of fifty weekly instalments of $1·00 each. There is a penalty of five cents in the case of default of any instalment. As soon as the fifty payments are made he becomes the holder of a paid-up certificate, but his loan is due only after two more weeks when he can use the certificate either to cancel the loan or to obtain a B Class certificate with interest at 5 per cent and make new arrangements for the repayment of the old loan. He has thus come to borrow but remains to lend as, once the habit of saving the weekly dollar is created, it goes on. He could use the B Class certificates as collateral for new loans but he need not provide sureties in this case. He can cash these certificates on a month's notice. Thus the man who would have been at the mercy of a loan shark is converted into a valuable co-operator.

(vi) *Financing agency and balancing centre.*—As far as possible the co-operative central banks should act as financing agencies and balancing centres for non-agricultural urban banks recommended above. Where urban banks are stronger than central co-operative banks or where the latter do not meet the special requirements of urban banks, urban banks should be allowed to deal directly with the provincial co-operative bank. Sufficient cash balances should be kept by urban banks with the central or the provincial bank from which they receive discount or rediscount facilities. It might

be necessary, if there is a considerable development of urban banks, that the latter should have their own central banks different from the central banks of agricultural credit societies. But it will be undesirable to have a separate apex bank. There should be only one provincial bank apart from the provincial land mortgage corporation.

(vii) *Relations with commercial banks.*—With the approval of the Registrar, large urban banks may be allowed to keep accounts with commercial banks, especially for the purpose of discounting, clearing and remittance business.

(viii) *Auditing.*—Our proposals regarding provincial and district audit unions in Chapter IX apply to the audit of urban banks also.

Co-operative Societies for Labourers.

320. The Bihar and Orissa Committee have given some attention to the requirements of labouring classes for credit and have pointed out that co-operative societies organized for them have not been particularly successful owing to the lack of thrift and education on the part of the members. As pointed out by the Townsend Committee on Co-operation in Madras, labouring classes are extremely poor and co-operative societies for these classes offer special problems of organization, supervision and finance. We share the hope of the Bihar and Orissa Committee that education and better organization may enable the landless labouring classes to form and work successfully co-operative societies of their own and thereby escape the evil effects of resort to money-lenders. We also support the recommendation of the Committee that employers should in their own interest give greater attention to the provision of credit facilities for their employees and should also take more part in the supervision of co-operative societies started for their benefit. We suggest that employers may assist the co-operative organizations by effecting recoveries of loans by deductions from wages, an arrangement which may form part of the contract for advancing the loan by the societies.

Other Agencies.

321. We do not think that co-operative urban banks alone can solve the problem of the classes of population we have mentioned above. Private enterprise on a commercial scale should also go hand in hand with the development of co-operative organizations. In Germany, for example, there is a great number of public banking institutions which go by the name of City Mortgage Institutions, which are the result of extension to cities of the principle of *Landschaften* in agricultural areas. They are engaged in the business of granting amortization loans to owners of improved real

estate or of land in process of being developed. In their organization and their regulations they resemble the *Landschaften*. The establishment of similar institutions in India is a matter of urgent necessity. Such institutions may be useful in relieving some of the sound loan offices in Bengal and some urban co-operative banks elsewhere of part of their land and house mortgage business which is not their normal function. These latter institutions can then render greater help to the middle classes by furnishing short-term credit, keeping their assets more liquid and increasing the velocity of the circulation of capital.

322. The Bihar and Orissa Committee have referred to the difficulty placed in the way of contractors getting finance at reasonable rates by the existing rules of business and methods of accounts of the Public Works Department and public bodies, which does not allow of all payments being made to the contractors through their financing banks or bankers. They have accordingly recommended that contractors should be encouraged to arrange finance through approved banks or bankers and that the acceptance of tenders should be communicated to the contractor as well as to the bank, which should further be assured that all monies due to the contractor will be paid to it. On the basis of this arrangement, banks would be prepared to finance contractors up to approved limits at lower rates of interest than are charged at present. We support the recommendation of the Provincial Committee that any technical difficulties in the way of implementing such arrangement should be removed.

CHAPTER XVI.

FINANCIAL REQUIREMENTS OF INDUSTRIES.

THE POSITION OF INDUSTRIES IN THE ECONOMIC LIFE OF THE COUNTRY.

323. India is predominantly an agricultural country. According to the census tables of 1921, only about ten per cent of the population was employed in industrial occupations as compared with about 73 per cent on agriculture. At the same time, the need for industrialization in India is great from a purely economic point of view as well as in the interests of the agricultural population of India.

324. The policy followed by the British Administration in India in regard to the development of industries up to the time of the Great War is explained in the following passage taken from paragraph 105 of the Report of the Indian Industrial Commission (1916-18) :—

> "The commercial instincts of the East India Company had from its earliest days in this country led it to make various attempts to improve those Indian industries from which its export trade was largely drawn, as, for example, by organizing and financing the manufacture of cotton and silk piece-goods and silk yarn, although this policy met with opposition from vested interests in England, which were at one time sufficiently powerful to insist that it should be suspended and that the Company should instead concentrate on the export from India of the raw material necessary for manufactures in England. The effects of this traditional policy* continued for some time after the Company had ceased to be a trading body, and even after it had been replaced by the direct rule of the Crown, and doubtless moulded such subsequent efforts as were made in the same direction by Government. But as *laissez faire* views gradually gained increasing acceptance both in England and in India, these spasmodic efforts became less frequent, and the first attempt at a general policy of industrial development took only two forms—a very imperfect provision of technical and industrial education, and the collection and dissemination of commercial and industrial information."

* For instances of this policy see pages 297 to 300 of the Report of the Indian Industrial Commission.

325. This policy of non-intervention in the development of Indian industries was generally pursued up to 1914. Sporadic efforts for giving active assistance to industries were, however, made by some of the local Governments, and these led in Madras to the development of the aluminium hollow-ware and chrome-tanning enterprises. Provincial departments of industries were also set up before 1914 in many of the provinces, though in most cases they existed only in a state of embryo. This policy of non-intervention of Government and their attitude towards the industrial development of the country combined with instances of anomalies in the fiscal, railway and stores purchase policies till recently followed in the country has exposed the Government to the charge of open hostility towards the interests of Indian industries prompted by the over-riding consideration of advancing British interests. We would like in this connection to refer to the speech of the President of the third session of the Indian Industrial and Commercial Congress, 1926.*

326. In spite of the lack of any support from the Government and the prevalence of deterrent factors which the Government did not attempt to remove, it is indisputable that there has been considerable progress in the last three or four decades in the matter of industrial development in India. The number of joint stock companies at work registered in India with rupee capital has increased from 1,309 with a paid-up capital of Rs. 29 crores in 1895-96, to 5,189 with a paid-up capital of Rs. 231 crores in 1921-22, and to 6,330 with a paid-up capital of Rs. 279 crores in 1928-29, this being the last year for which statistics are available. Some further idea of this development can be obtained by examining the position in regard to five principal industries, namely, jute, cotton, iron and steel, coal, and tea. The numbers of looms and spindles employed in the jute mills have increased from about 10,000 and 215,000 respectively in 1895-96 to 50,000 and 1,068,000 in 1924-25. The total Indian production of cotton mills has increased from 423 million pounds in case of yarn and 83 million pounds in case of woven goods in 1896-97 to 719 million and 459 million pounds respectively in 1924-25. The production of pig iron has advanced from 35,000 tons in 1901 to 884,000 tons in 1924-25. The production of coal has expanded from 3½ million tons in 1895 to 21 million tons in 1925. The total export of tea has increased from 139 million pounds in 1895-96 to 348 million pounds in 1924-25.†

327. At the same time, there is a general feeling in India that the progress made by India in her industrial development during

* Report of the third session of the Indian Industrial and Commercial Congress, 1926, pages 19 and 20.

† The figures after 1924-25 have not been given, as in some cases the production in recent years has been helped by the imposition of protective duties on imports.

the last fifty years is very meagre compared with her vast resources and the needs of her large population. This is fully borne out by the extent of her dependence on the imports of foreign manufactures. In 1928-29, for instance, the total value of the imported articles, mainly or wholly manufactured, amounted to about Rs. 180 crores out of the total imports of Rs. 253 crores, while the total value of exported articles, mainly or wholly manufactured, amounted to Rs. 90 crores out of the total exports of Rs. 330 crores. As against these figures, the value of raw materials and produce and articles mainly unmanufactured exported from the country amounted to as much as Rs. 170 crores, while the value of such articles imported from other countries during the same year amounted to about Rs. 23 crores. As the Industrial Commission observed:* "India produces nearly all the raw materials necessary for the requirements of a modern community; but is unable to manufacture many of the articles and materials essential alike in times of peace and war". India is still almost wholly dependent on foreign countries for the plant and machinery and chemicals which she requires and the production of which may be regarded as the index of the industrial progress of any country. The need for a rapid industrialization of the country can hardly be exaggerated from a purely economic point of view, as it will tend to absorb that portion of the population which cannot be supported by agriculture, will provide a remedy for the gradually increasing unemployment among the middle class people, and will result in an improvement in the standard of living generally. As early as 1880 it was observed by the Indian Famine Commission that: "at the root of much of the poverty of the people of India and the risks to which they are exposed in seasons of scarcity lies the unfortunate circumstance that agriculture forms almost the sole occupation of the mass of the population".

328. It is no wonder that for some years before the Great War Indian economists and Indian politicians had expressed their discontentment with the economic dependence of India on foreign money and foreign manufactures. According to them, the domination which the capital, enterprise and skill of England exercised over the trade and manufactures of India had "an insidious influence which paralysed the springs of all the various activities which together make up the life of a nation."† The discontentment was voiced in the Indian Industrial Conference which began in 1905. The Government of India, however, did not accept responsibility for giving active assistance to industries until after the outbreak of the Great War, when the contraction of commerce in the West served to bring home in a striking manner the extent of India's economic dependence on Europe.

* Official summary of report.

† Ranade—Essays on Indian Economics, 3rd Edition, page 92.

329. In 1916 Government appointed the Indian Industrial Commission. That body reported in 1918; and as they observed in the summary of their report, the constructive proposals made by them depended on the acceptance of two principles :—

(1) that in future Government must play an active part in the industrial development of the country, with the aim of making India more self-contained in respect of men and material, and

(2) that it is impossible for Government to undertake that part, unless provided with adequate administrative equipment and forearmed with reliable scientific and technical advice.

The problem, as it presented itself to the Commission, was largely one of organization; and the machinery which they proposed to set up included central and provincial departments of industries manned largely by all-India scientific and technical services. According to their recommendations, the main activities of Government in respect of industries were to include, (1) research, (2) industrial and technical education, (3) commercial and industrial intelligence, (4) direct assistance, technical and financial, and (5) the purchase of stores. The Montagu-Chelmsford Report on Constitutional Reforms, 1917, also recognized that "the Government must admit and shoulder its responsibility for furthering the industrial development of the country." Later, the appointment of the Tariff Board, on the recommendations of the Fiscal Commission, contributed its share to the progress of industrialization in India, the industries which have benefited most as a result of the action taken on the recommendations of the Board being cotton textiles, iron and steel, and match.

330. Under the changes made in the Indian constitution in 1921, the main responsibility for the development of industries by the State passed to the Ministers in the provinces. This change made it impossible for the Governments concerned to give effect in full to the organization recommended by the Industrial Commission. Nevertheless, the various recommendations of the Commission furnished the Ministers with valuable material indicating the lines on which they might proceed in the discharge of their responsibilities in the matter. Some amount of progress on the lines advocated by the Commission has taken place in almost every province, though the financial difficulties of recent years and the limitations imposed on the spending powers of Ministers by the diarchical form of constitution have operated as impediments. An account of the action taken in various directions like organization, technical education, development of cottage industries, research and investigations, financial assistance, etc., will be found in Clow's "The State and Industry", published in 1928, which also gives the action taken

by the Central Government in matters with which the latter are concerned, including "protection".

331. There is, however, still a considerable amount of feeling among the intelligentsia of India that the State, and particularly the Central Government, is not taking as much interest as it ought to in the development of India's industries. They contend that the recommendations of the Tariff Board have in many cases not been given effect to promptly or fully; that indeed the Board's report on chemical industries, though made in 1929, has not yet been published; that generally speaking no revision of railway rates has been made on the lines suggested in chapter XIX of the Report of the Industrial Commission; and that for ten years no action has been taken by the Central Government on the recommendation in para. 292 of the Commission's Report asking for the appointment *at the earliest possible date* of an expert committee to examine the possibilities of establishment of industrial banks in India. In a later paragraph we shall deal with the effect of this feeling on the investment of capital by Indians in Indian industries.

332. Since the outbreak of the Great War there has been a marked increase in the amount of Indian capital invested in Indian industries, though the flow has received a check in recent years owing to the depressed state of business generally. Nevertheless, a not inconsiderable amount of capital* invested in Indian industries is still non-Indian. The result is that the control and management in the case of some of the important industries are even now in the hands of non-Indian firms. The predominance of non-Indian management in some of the important industries has detracted from the value of Indian participation in industrial enterprises. Generally speaking, the managing agents have not given any scope to Indians to hold such positions in the companies they manage as might have given these Indians an opportunity to have a comprehensive idea both in regard to the technique of production and management of the business.

333. A strong feeling has, however, grown among the Indian intelligentsia that the control and management of Indian industries should pass to an increasing degree to the hands of Indians; and this feeling has also been voiced in the past by some of the English administrators of the country. For example, speaking on the 21st March 1916 in the Imperial Legislative Council on the resolution which led to the appointment of the Industrial Commission, Sir William Clark, then Member of Commerce, said that "the building up of industries where the capital, control and management should be in the hands of Indians" was "the special object which we all have in view"; and he deprecated the taking of any steps "which might merely mean that the manufacturer

* We have been unable to ascertain the figures with any degree of accuracy.

who now competes with you from a distance would transfer his activities to India and compete with you within your own boundaries". It is possible that more progressive assistance by the State towards the development of Indian industries will make adequate capital available in India for investment in safe and sound industrial concerns. This was the anticipation expressed by the minority of the Indian Fiscal Commission in paragraph 50 of their note of dissent. In marked contrast to the attitude of the State towards industries in India stands the action taken by Governments in certain other countries like the United States of America and Japan :—

The United States of America.—In the United States a national industrial policy has deliberately been adopted. This conscious effort made by the Government of the country to advance its industrial interests is fully illustrated by the development of the iron industry, which is referred to in the following words by Professor Taussig :—

> "Rich natural resources, business skill, improvements in transportation, widespread training in applied science, abundant and manageable labour supply—these, perhaps, suffice to account for the phenomenon. But would these forces have turned in this direction so strongly and unerringly but for the shelter from foreign competition?"

The development of the American industry thus appears to have been expedited by timely intervention of the Government.

Japan.—The Government of Japan has also actively associated itself with the process of industrialization of that country. At the time of the Restoration in 1868, the economic condition of Japan was much worse than that of India in 1757, but during the course of little over half a century, she has become one of the most fascinating countries of the world, in so far as industrial and commercial phenomena are concerned.* Japan had been secluded from the world for about three centuries and while she had no powerful and wealthy mercantile class comparable to that which existed in England in the eighteenth century, the only industry in which she could take pride was the production on a small scale by craftsmen of special articles of luxury and military equipment for the knights and nobles. This, together with the extremely unsatisfactory conditions regarding other aspects of economic and political condition of the country, led the Japanese to consider seriously the urgency of rapid westernization of Japan, and while the European military equipment and methods were adopted wholesale, the need for speedy industrialization was no less recognized. There were, however, very severe obstacles to be overcome. There

*"Modern Japan and its problems" by Allen.

were, on the one hand, tradition and social customs preventing any sort of individual initiative, while the lack of capital necessary for financing large-scale manufacturing industries accentuated these difficulties still more. The seriousness of the situation was promptly realized by the Government which was thus compelled to step in from the very first and embark on an active national policy. Besides sending numerous students abroad in order to study the industrial and commercial technique of the West, engaging foreign experts in order to train those at home, and providing other machinery for industrial training, it also pioneered many new industries, such as textile, iron and steel and shipbuilding industries; it has supplied the capital wherever possible, while in other cases, it has rendered substantial help by granting subsidies or giving protection. The assistance which the Government rendered to the industries was by no means confined to the above; commercial museums established by the Government in almost all the cities hold periodical exhibitions, thereby facilitating sale of goods abroad, and also supply useful information to the traders, while the various guilds, numbering over a thousand, have been established under Government auspices, with the object of regulating the quality of the product. The establishment of the Yokohama Specie Bank in 1880 and of the Industrial Bank of Japan in 1902 have also given much impetus to the progress of Japan's industrial development. The amazing progress which Japan has made in the matter of her industrial development during the last sixty years as a result of this active policy of the Government will be realized from the fact that the contribution of manufactured goods to her total export trade rose from 1·14 per cent. in 1868 to 42·52 per cent. in 1928, the figures for the import trade being reduced from 60·57 per cent. in 1868 to 15·16 per cent. in 1928. This extraordinary growth of industrial activity is also reflected in the figures for the exports and imports of raw materials; while the country at the beginning of her industrial career exported as much as 26·27 per cent. and imported not more than 4·98 per cent. of raw materials, the progress of industrialization has resulted in changing these figures to 4·17 per cent. and 53·12 per cent. in 1928*.

Even in England wherefrom has emanated the doctrine of *laissez faire* imposed on the governmental policy in this country, the need for active participation by the Government in the promotion of industrial interests has come to be effectively recognized in recent years. A reference to this change in the policy of the Government is made in the report of the Liberal Industrial Enquiry, which shows how between 1921 and March 1927 an aggregate loan of more than £74 million was raised under the Trade Facilities Acts for approved purposes on behalf of private

* The Asahi English Supplement, Present Day Japan 1930, pages 114 and 136.

concerns with the guarantee of the Government. The Government guarantee of the loans was given free of any charge.

CLASSIFICATION OF INDUSTRIES INTO MAJOR AND MINOR INDUSTRIES.

334. Before we proceed to deal with the capital requirements of industries, we may refer to a fact which we have already mentioned, namely, that at the outset of our enquiry we divided our task between the Provincial Committees and ourselves. The former were requested to deal with the requirements of small and middle-sized industries, including cottage industries, while we reserved to ourselves the examination of the position of the major industries such as cotton, jute, iron and steel and coal. Although some of the witnesses who appeared before us dealt in their written and oral evidence with a few industries which were the subject of investigation by Provincial Committees, notably the tea industry which being largely an agricultural industry came within the purview of the Provincial Committees, our examination of these witnesses was mainly devoted to the financial requirements of the major industries mentioned above. Most of the Provincial Committees toured about their provinces. As the small and middle-sized industries are scattered, such tours were necessary. We in the Central Committee, however, did not tour for our purpose. The major industries are all concentrated at the larger centres and are well represented in the various Chambers of Commerce and other Trades Associations. Most of the important Chambers and Associations helped us with their valuable written memoranda and oral evidence. We deal in paragraphs 339 to 353 with the position regarding major industries as placed before us by witnesses and in the succeeding paragraphs we summarize the case for the smaller and middle-sized industries as presented by the Provincial Committees.

CAPITAL REQUIREMENTS OF INDUSTRIES.

335. Industries require capital for two purposes (1) capital for block, that is, to finance fixed assets, and (2) working capital, that is, to finance floating assets. Block capital is required by newly started industries for fixed assets, such as land, buildings, machinery and other appliances of a durable and permanent character. It is also required in the case of established industries for purposes of extensions and replacements. The capital that is invested in these fixed assets is more or less of the nature of permanent investment.

336. Working capital is required for the purchase and working up of raw materials into finished products, for stores, for expenses incidental to the marketing of products, for financing outstandings in respect of goods supplied, and for providing the necessary funds for meeting day to day requirements. The capital that is invested in this way should be of the nature partly of permanent or

long-term capital and partly of short-term finance. A recent writer* states that the stock of raw materials and manufactured or semi-manufactured commodities never falls below a certain minimum and the capital required for holding these is of the nature of permanent capital. Any working capital over this minimum falls under the category of short-term finance.

337. The relative proportion between block and working capital required in an industry varies with the nature of the industry. In cottage industries, for example, in which processes are not 'roundabout', and the implements are comparatively inexpensive and few, fixed capital is very small compared with working capital, while on the other hand, in modern industries such as jute and cotton, the proportion of fixed to working capital is much larger. Again, as the processes of production become more and more 'roundabout', the proportion of fixed to working capital increases correspondingly. Taking the case of the hydro-electric industry, the distinctive feature of its finance is its large requirements of fixed capital.

338. The period between the starting of an industry and the time when production commences varies from industry to industry. In the case of a tea garden, for instance, the initial outlay on which for a garden of the minimum size is estimated at Rs. 7½ lakhs, production does not commence till after the expiry of at least four years from the laying out of the garden. Again the number of years that a cotton mill takes to become a paying concern is different from that taken by an iron and steel concern.

Major Industries.

Existing facilities.

339. The conservative school of witnesses such as the European Chambers of Commerce, the Exchange Banks Association and the Imperial Bank of India have all stated in evidence that in India no industries floated on sound lines and showing a reasonable promise of success have been unable to obtain the financial assistance necessary. According to them, capital required for financing fixed assets should in all cases be supplied by public or private subscription of shares or debentures of the undertaking. When an industry has established itself in this way and is capable of presenting a balance-sheet showing its soundness, the commercial banks should supply the capital required to finance the floating assets on the security of stock and other liquid assets built up by the industry. It has been suggested that promoters are often anxious to obtain Government patronage which would make it easier for them to obtain outside financial support, and that it is difficult to sympathise with this

*Karin Kock, "A study of interest rates", page 9.

attitude on the part of promoters. According to one of these witnesses, in most countries all large industrial concerns have been developed by private enterprise from very small beginnings and if the same principles of non-reliance on Government help be followed in India, no sound scheme of industrial development would find any difficulty in obtaining finance either for block, or working capital from the existing sources of supply.

340. Indian witnesses in general differ from the conservative school referred to in the preceding paragraph and they are extremely dissatisfied with the existing state of affairs. We mention below the various handicaps to Indian industries brought to the notice of the Committee by these witnesses through their written and oral evidence :—

(i) Banks in India do not provide finance for block capital for industries, though there is no reason why such finance should not be provided by them out of their paid-up capital and reserves, if adequate security is offered. It is true that these resources are relatively small, but by utilizing these capital resources for the purchase of debentures of industrial concerns with a view to passing them on to the public, banks could render great assistance to new industries. This process could be repeated continuously with very little risk to the banks and with great advantage to new industries. It is complained that conservatism and lack of initiative make the banks very timid and prevent them from embarking on under-writing of industrial capital or even lending money on the security of industrial shares to any great extent. The Imperial Bank of India which is the biggest Indian joint-stock bank that might be of some assistance in this direction is debarred by statute from giving loans to industrial companies for capital expenditure, by the limitation of six months on the period of loans that may be granted by it, and by a prohibition against lending money on the security of industrial shares or immovable property. Even as regards floating capital secured by liquid assets, the Bank insists on a margin of something like 30 per cent, with the result that industries have to provide not only the whole of the capital required for financing the fixed assets but also 30 per cent of the capital required for financing the floating assets. This attitude of the banks in India, added to the shyness of Indian capital, acts as a damper on the industrial development of India.

(ii) Banks further usually insist on a full backing of tangible and easily realizable security for their loans and take no account of the personal credit and integrity of the borrowers. This is in striking contrast to the position in England as illustrated by the following quotation* from

*This quotation refers specifically to farmers' accounts but it will be seen from pages 170 to 171 of Walter Leaf's book that the same practice is followed in other directions.

Walter Leaf's book on 'Banking':—"We (*i.e.*, the Westminster Bank) have had some figures taken out, and I confess they were something of a surprise to me. They refer, of course, to the loans we make for current business purposes. They show that of the total number of borrowers no less than 28 per cent had their loans wholly unsecured, and a further 13 per cent only gave partial security". It has been suggested that a number of failures of industrial concerns, due to bad management, has shaken the confidence of the public as well as the banks, in India, in industrial concerns generally and the banks are, as a result, over-cautious in their advances to industries and insist on tangible and easily realizable security as cover in all cases. It is argued, however, that it is the business of banks, if they have the national welfare at heart, to distinguish between good and bad concerns and to help those concerns, about which they are satisfied that the business integrity of the management and the financial position are sound.

(iii) Notwithstanding the view of the conservative school it is said to be a great hardship to industries, that banks should insist on maintaining a margin of about 30 per cent. in regard to advances against stocks and even a higher margin in regard to stocks in process of manufacture, especially when prices have touched bottom in many cases. The hardship is said to be further increased by banks not giving any consideration to the existence of valuable block capital as general security for loans.

(iv) The Cotton Textile Industry is the biggest national industry of India. The industry has for the last few years been passing through a period of general depression and has also been subject to local vicissitudes. A number of mills in Bombay are not making a profit at present and from year to year have sustained losses which have led to a reduction of capital. On account of this reduction in capital and the recurring losses, the banks are reluctant to make advances. The Managing Agents who finance the industry to a considerable extent in normal times are unable to cope with the requirements in such periods of adversity. It is stated that in other countries of the world such national industries would in times of depression be nursed by a bold and sympathetic policy on the part of banks.

(v) It has been suggested that banks in India are not equipped with the technical knowledge necessary for valuing the assets of an industrial concern and for judging whether the concern is profitable and solvent. Asked whether this lack of technical knowledge interfered with the liberal grant of facilities by banks, one prominent Indian banker said that such difficulties do not exist in the case of large industries where sufficient data are available through balance-sheets and reports, from which the bankers can form a correct opinion about the financial position of the concerns. He added that the smaller

industries, however, which were generally proprietary concerns did not prepare and make available balance-sheets regarding their financial position and that banks were handicapped by the consequent lack of knowledge in granting advances to them. Even if technical men for the valuation of the assets of the company and for giving expert opinion as to the solvency of the concern were required, it was stated that banks could easily employ such men for the purpose and that this would not be very costly. From their personal experience on the boards of industrial concerns, the representatives of an important Chamber of Commerce said that they had no difficulty, practical or otherwise, in getting advances from banks for want of technical knowledge on the part of the bank management.

The Bengal Banking Enquiry Committee have referred to the fact that joint-stock banks do not employ experts to make valuation of the goods against which advances are asked for and have suggested that the task of valuation might be undertaken by some reliable agency. The Bombay Committee have also referred to the lack of technical knowledge on the part of the bank staff for examining propositions for financing industries.

(vi) Banks finance industries at present out of short-term deposits by granting advances for working capital for short periods. Though they are always willing to renew these loans from time to time provided that the industrial concern is running satisfactorily and the security is good, from the point of view of the industrial concern, this position is considered to be precarious in view of the fact that the concern can never be certain of getting a renewal of the advances.

(vii) As stated later in paragraph 343, a great deal of the capital required by the cotton mills in the Bombay Presidency is obtained direct by means of deposits from the public. This system of finance has been compared to a fair-weather friend. When times are bad, these deposits are liable to be withdrawn from good as well as bad concerns, thereby aggravating the position at a time when all resources are required to carry over what may be only a temporary period of depression.

(viii) Some complaints have been made about racial discrimination on the part of the officers of the Imperial Bank of India when considering applications for credit. It has been suggested that the European managers of the Bank on account of their methods of living and social habits have greater opportunities of coming in closer personal contact with European clients than with Indians and that this personal information and contact result in more favourable treatment being accorded to European concerns than to Indian concerns. It is further generally believed that the Bank lends to European concerns more freely than to Indian

concerns and that several Indian concerns which took the Bank's assistance have had bitter experience. It has been suggested that while non-Indian concerns get fuller assistance from the Bank, the assistance rendered to Indian concerns is very small and falls much short of the actual requirements of the concern. We have been furnished, through the courtesy of the Imperial Bank of India, with the figures of advances to Indian and non-Indian concerns, but in the absence of fuller information regarding individual concerns, we are unable to examine this complaint. We were referred in this connection by one of the witnesses to the system followed by the Bank of India at Ahmedabad. Instead of depending on his shroff for information regarding the status and position of his clients, the Manager is assisted by a local board of directors who take the fullest responsibility for the recommendations they make. The particular witness stated that he had known cases where owing to the absence of such local boards for branches of the Imperial Bank of India a party worth Rs. 3 or 4 lakhs had been reported as worth Rs. 10,000 only while a party worth a few thousands had been represented to be worth some lakhs. The Managing Governor of the Imperial Bank, when asked to explain to the Committee the means employed by the Bank to ascertain the standing and repute of traders, stated :—

> 'Banks have their own intelligence departments which, by watching markets and the operations of dealers in those markets, by the receipt of information from many sources open to them, confidential and otherwise, by the observation of individuals by trained observers, by the examination of books and balance sheets and the summing up of the information so received by the officers of the bank, arrive at their estimate of the credit that should legitimately be granted.'

We might also observe in this connection that the Imperial Bank of India has more than 160 branches while the branches of 133 other joint-stock banks taken together totalled 421 in 1928.

Similar complaints against banks generally have also been received from representatives of collieries and tea gardens. It is said that collieries and gardens under European management do not suffer on account of want of finance, but that others controlled by Indians do suffer from this cause.

(ix) The rates of interest charged to industries for loans and advances are said to be generally much higher than the industries can bear. For example, the usual rate of interest on bank loans and advances is generally the Imperial Bank's rate, and in some cases one or two per cent. higher. As the Imperial Bank rate advances with reference to seasonal market conditions, industries

are penalised by high interest charges based on seasonal stringency, though the rates are not justified by the inherent conditions of the industries. Smaller joint-stock banks make advances to industries both on mortgage and personal sureties at much higher rates. Similarly in the case of finance supplied by Indian Princes and indigenous bankers and merchants a very high rate of commission has often to be paid to the intermediary party which arranges the loan and such finance is in consequence more costly than the finance obtained from banks. The difficulty of obtaining capital by issue of debentures has already been referred to and here the cost of raising capital in this manner may be mentioned. It is pointed out by one witness who deals in such debenture issues that debenture loans generally cost about 7 per cent per annum besides the additional cost involved in commissions, stamps, etc., and that the underwriting commission or brokerage alone varies from 2 to 5 per cent.

341. At the same time many witnesses have stated that in India capital for industrial development is not easily forthcoming from the public, and further that the financing of fixed capital expenditure by means of debentures is not as popular as elsewhere. This state of affairs has been attributed to various causes :—

(1) There is no recognized method in India by which the general public can obtain advice and assistance as regards investments in India. No doubt banks' clients can obtain some sort of advice from their bankers, but there are many urban centres which do not still possess any banks and the assistance where it is available is not of the active, directing kind which banks in Germany supply to their customers, for the advancement of industries. The Stock Exchanges function only in the large seaports and an upcountry investor has little chance of getting in touch with any reliable or recognized member of these Exchanges.

(2) The failure or lack of success of many of the smaller industries started in India is also reported to have shaken the confidence of the public in industrial investments to a certain extent. The conservative investor in the mofussil therefore prefers to invest his money in post office savings banks, cash certificates and other Government securities with the knowledge that the credit of the Government is behind these investments and that his money is, therefore, perfectly secure.

(3) We have been told that there is a class of Indian investor which looks for capital appreciation in its investments and that debenture loans with a fixed yield

of interest and with no prospect of capital appreciation have, therefore, no attraction for this class. On the other hand, we have been informed by the Calcutta Stock Exchange Association, whose opinion in this matter is entitled to great weight, that there is at all times a large class of investors which prefers the security offered by sound debentures to the possibility of capital appreciation.

(4) In other countries insurance companies invest a large portion of their surplus funds in debentures of first class concerns. In India no insurance company has yet taken to this kind of investment. This is attributed by some witnesses to the insecurity engendered by the fiscal policy of Government and by others to the absence of debentures of really first-class industrial concerns.

(5) The heavy stamp duty on debentures and on transfers of debentures is also considered by some witnesses to be one of the impediments in the way of industrial debentures becoming popular. For example, in Bombay the stamp duty on a debenture transferable by endorsement, or by a separate instrument of transfer, is Rs. 7/8 per thousand. On each transfer there is an additional duty of a similar amount. In the case of bearer debentures, there is an initial duty of Rs. 15 per thousand at the time of issue, but there is no additional duty on each transfer. In order to encourage this useful form of investment among the public, the Punjab Banking Enquiry Committee have recommended considerable reduction in the duties. There are, however, other witnesses who think the stamp duty has nothing to do with the popularity of the debentures, as the cost of the initial duty falls on the company and not on the holder of the debentures, except in the case of 'registered' debentures of which there are not more than half a-dozen issues in all and where the stamp duty is the same as for share transfers.

(6) Our attention has also been drawn to a practice whereby the whole of a debenture loan has been taken up by limited groups of financiers working for wealthy clients such as Indian potentates and merchant princes, who do not try to place the debentures on the market and thus create a market for them. In a few cases, certain banks have, we are told, tried to introduce debentures among their clients by even devising instalment schemes of payment, but that small odd lots

put on the market by companies of unknown antecedents and uncertain future do not attract the investing public, and moreover such issues cannot readily be negotiated in the Stock Exchanges. Opinions as expressed by several important bodies vary considerably. One such body affirms that original debentures are quite popular forms of security and are saleable in the market and that in general debentures of mills, tea gardens, and other sound concerns, are sought after in Calcutta, though such debentures are bought more by investors than speculators and therefore do not pass from hand to hand in the same easy manner as shares. The Calcutta Stock Exchange Association have brought to our notice the success of the debentures of two important Indian jute mills in Calcutta. In their opinion, the success depends on the nature of the security offered, and where this is satisfactory, and the yield is attractive, the public readily subscribe. The standing and repute of the Managing Agents is also a matter of importance; a slight preference being shown, they say, for European Managing Agents.

(7) Most of the Indian witnesses have added another reason for the shyness of Indian capital, namely, the fiscal policy of Government. When once an industry is started, the industrialist has no guarantee that he will be protected, if any such necessity arises, against unfair foreign competition. We have heard the complaint that though machinery has been set up by Government to consider the claims made by various industries for protection, namely, the Tariff Board, the recommendations of this Board are not always carried out by the Government. It is therefore argued that the investor in an Indian industrial undertaking has no assurance that the industry in which he invests will reach the profit-earning stage or that the profits, when once they accrue, will be maintained by inauguration of proper protective measures on the part of the Government of the country.

The Managing Agency System.

342. We have referred more than once to the Managing Agency system. The important place which it occupies in the organization of industries in India justifies a somewhat fuller treatment in our Report.

(i) Bombay.

343. In Bombay, when an industrial concern is started, particularly a cotton mill, the Managing Agents attract capital from their friends and others who are aware of their standing.

The working capital is found from private deposits and from loans and cash credits from banks, and in both directions the Managing Agents on account of their financial standing have rendered yeomen service to the industries. The deposits are in most cases for six and twelve months and the rates paid on such deposits vary from about 4½ to 6½ per cent, being to a great extent regulated by the standing of the individual mills and the position of their Managing Agents. As regards loans from banks, they are obtained on the guarantee of the Managing Agents and are now generally secured collaterally by a hypothecation of the liquid assets of the mill company. Advances to mill companies are not usually made against a pledge of stocks, as the mills do not find it convenient to place their stocks in the possession of banks. The procedure followed by the Imperial Bank of India is that in cases where a pledge on stocks is given, it is not usual to require the guarantees of third parties, and advances in such cases are made on the security of stocks. But sometimes only a 'charge' is given which is a very wide and elastic term embracing hypothecation or lien, and a guarantor is required only when the so-called charge is not a sufficient security in itself. In such cases advances are granted on promissory notes and as under the Imperial Bank of India Act, such advances must be on the security of paper bearing two names, the personal guarantee of the Managing Agents is also taken. This personal guarantee of the Managing Agents is not however required in respect of advances against Government and other trustee securities. In some cases it is stated that the Managing Agents provide finance on consideration of being appointed agents for buying raw material and selling or distributing the products of the industry concerned.

(ii) Calcutta.

344. In Calcutta the main industries in which the Managing Agency system prevails are jute, coal, cotton and tea. The duties of Managing Agents are said to be very wide. The Managing Agents (unless the agency has changed hands) are the founders of the concerns, and manage them in every way. They arrange for the finance, both block and working, either by raising share capital or arranging with banks, or other financiers or supplying it themselves. They purchase the raw materials, supervise the manufacture, sell the products and control the management in all spheres. When banks require guarantees, the Managing Agents give the same. We understand that these Managing Agents do not in many cases give their personal guarantee in the case of bank loans and overdrafts as in Bombay but merely give a guarantee that the overdrafts granted are always covered by stocks.

(iii) Ahmedabad.

345. The Committee have been furnished with a full description of the working of the Managing Agency system in Ahmedabad where it is admitted on all hands to be an unqualified success.

Generally speaking, the total block capital required for starting a cotton mill in Ahmedabad is about Rs. 20 lakhs and of this Rs. 5 lakhs is initially found by share capital. As regards the balance, in the case of the old mills, 65 to 75 per cent of the capital outlay has been financed by deposits and by funds supplied by the Managing Agents. These deposits used to be generally for one year. In the case of new mills, out of Rs. 20 lakhs required to finance the block capital, Rs. 5 lakhs is raised by share capital and the balance is found in the form of seven-year deposits for Rs. 5 lakhs and one-year deposits or the Managing Agents' own capital for the remaining Rs. 10 lakhs. These seven-year deposits are encouraged by the grant to the depositor of a share in the agency commission. The managing agency is made into a limited concern with a nominal capital of Rs. 1,000, there being 1,000 shares of Re. 1 each, and any one who comes forward with Rs. 5,000, *i.e.*, Rs. 3,000 in the shape of ordinary share capital and Rs. 2,000 in the shape of deposits for a fixed period of 7 years is given one share of the managing agency or one thousandth share of the agency commission. This one rupee share has considerably more value than its nominal value and in some cases it is worth Rs. 700 to Rs. 800. As far as the Ahmedabad industry is concerned, the system is reported to have succeeded beyond ordinary expectations and it is even doubted if the industry would have progressed as well as it has done in recent years, had it not been for the system of giving out shares from the managing agency commission. Formerly, the Managing Agents used to take in persons who would bring in a certain amount of capital, thereby earning a certain portion of the Commission Agent's share, but now the agencies have been made into limited concerns and shares issued, a proportion of which the holders may sell off at their sweet will.

346. The deposits received by mills come mostly from individuals and vary from Rs. 5,000 to Rs. 10,000 on the average. Before the war, it is said, almost all the deposits used to come from the public in Ahmedabad and adjoining rural areas. But after the war, some of the industrial concerns in Ahmedabad have flourished and accumulated reserves and these reserves are now inter-deposited. These deposits by mill companies have taken the place of the deposits from rural areas which have considerably fallen off, due partly to decline in their prosperity and partly to the competition of Government. It is said that the Ahmedabad public consider that it is safer to deposit with a mill than with a bank and this state of affairs is attributed to the business integrity of the people in charge of the management of the mills who look to the interests of the depositors as if they were their own. On the whole, there has been no reduction or falling off in the total of the deposits received by the mills, which have continued steady during a long period of 25 years.

347. Mills in Ahmedabad obtain very little or no assistance from banks. So far as block capital is concerned, the banks are naturally unwilling to invest their funds raised in the form of short-term deposits in long-term investments in fixed assets of the concerns. Even as regards working capital, the mills are unwilling to pledge or hypothecate their stock with banks as Bombay mills do. It is said that if the mills were to hypothecate their stock, the whole fabric of credit including their deposit system would be ruined.

348. In Ahmedabad it is not the practice for the Managing Agents to charge any commission for buying raw material; it is for selling the finished product that they get a commission.

349. The rates of interest on deposits offered by a mill under a particular management in Ahmedabad during a series of years were as follows :—

	Per cent.
1923	6
May 1926	5½
January 1927	5
October 1929	5½

The rate which the Managing Agents charge to the mills for the money which they advance is said to be never more than 6 per cent and compares favourably with the rate of interest on deposits, inasmuch as the agents have to advance any amount of deficiency in the total finance required by the mills including losses from time to time.

350. The following statement shows the various sources from which mills in Bombay and Ahmedabad obtain the required finance :—

(In lakhs of rupees.)

	Bombay. (Figures for 64 Mills.)		*Ahmedabad.* (Figures for 56 Mills.)	
	Rs.	Percentage of total finance.	Rs.	Percentage of total finance.
1. Amount loaned by the Managing Agents	5,32	21	2,64	24
2. Amount loaned by Banks	2,26	9	42	4
3. Amount of public deposits	2,73	11	4,26	39
4. Amount of Share Capital	12,14	49	3,40	32
5. Amount of Debentures issued	2,38 (*a*)	10	8	1

(*a*) Made up of :—46 from Managing Agents.
53 from Banks.
1,39 from the public.

(iv) Bihar and Orissa.

351. The following extract from the Bihar and Orissa Report shows the position of the Managing Agents in that province :— "They are most active in the coal mining and iron and steel industries. Of the lesser industries they support most of the electrical enterprises, the lime factories and the larger mica mines as well as a good part of the sugar industry. They have not much concern with the other industries. Though without their help Bihar and Orissa would have been even less fully developed than it is, from a purely provincial point of view their activity has some serious disadvantages. They have concentrated mainly on industries dependent on the exhaustible resources of the province, and have not, save in the matter of sugar, developed other industries not so dependent. Though they are closely linked to the general money market and can hire first class business ability, their outlook is too wide, their centre of operations too far removed, and their financial scale too large, to secure an examination of the possibilities of developing minor industries, which might be of great service to the masses of the provincial population. In fact they have, from our point of view, too many irons in the vast and uproarious fire of their activities. Nor can they be expected to feel, in addition to the stimulus of profit, the spur of provincial patriotism to make them take a lively and well-informed interest in such development".

General remarks on the working of the system.

352. Although the Managing Agency system is reported to have done a great deal for the industrial development of Bombay, it is admitted that it is not by any means a perfect arrangement but has many serious drawbacks. There have been cases where the Managing Agents have, besides managing their own mills, traded and speculated and the resulting weakness in their position has reacted on the financial position of the mills themselves and led to the banks withdrawing cash credits even when the mills were intrinsically sound, merely because the Managing Agents had become weak. Further, although it is true that in times of crisis such as Bombay has been going through, Managing Agents have incurred extensive losses as a direct result of financing the mills under their control, there have been a few cases in which these Agents have turned their loans to the mills into debentures, with the result that the concerns have passed into their hands and the shareholders have lost all their capital invested in the undertaking. It has also been pointed out that this Managing Agency system works well when everything goes on smoothly and when the industries are prosperous. During these periods of prosperity if more money is required by the industrial concerns, the Managing Agents may very often continue supplying the money themselves

to a considerable degree. Later on, however, when conditions alter and the industry or the particular concern comes up against bad times and the Managing Agents find themselves compelled to find more money to support the industry, it is found that they are not able in all cases to cope with the requirements.

353. We suggest, therefore, that attempts should be made to make industrial enterprises in India less dependent on this system for future development. The establishment of direct friendly relations between industrial companies and commercial banks is desirable especially in view of the capital demands that are likely to arise in connection with mergers and reconstructions which may follow the present economic depression.

Result of Provincial Enquiries into small and medium sized industries.

354. We have referred in the preceding paragraphs to the evidence we received in regard mostly to major industries, such as cotton, jute, iron and steel and coal. As already stated, the financial requirements of small and middle-sized industries were investigated by the Provincial Banking Enquiry Committees. The various industries examined by them were : rice, flour and oil milling, lac manufacture, mica mining, sugar refining, cigarette and silk manufacture, cotton ginning and cleaning, the tea industry, and glass manufacture. The position of these industries in regard to the supply of their financial requirements is summarised below.

(i) Assam.

355. The Assam Committee have investigated the case of the tea industry, and while they acknowledge the difficulties of some of the smaller gardens they attribute this to some extent to the under-capitalization of the gardens in the initial stage. They state that the firmly established European and Indian gardens which have provided themselves initially with sufficient capital and have built up adequate reserves are able to tide over periods of slump.

(ii)

356. The Bengal Committee in the case of tea refer also to the difficulties caused by under-capitalization in the first place, and the consequent necessity to borrow from loan offices, moneylenders and *marwari* bankers on personal security or on mortgage of the gardens. Nevertheless they have come to the conclusion that the existing financial facilities enjoyed by the gardens appear to be sufficient, and that the companies should follow the sound policy

of building up reserves from their huge dividends instead of distributing the whole of them as at present. Some of our members think that this conclusion is not justified considering the high rates of interest which some of the gardens have to pay for finance, and we think that it might be advisable for the Industrial Corporation which we recommend elsewhere to look further into the case of this industry if and when it is established.

357. As regards the middle-sized industries in Bengal such as rice-mills, mills for pressing oils, hosieries, match factories, printing presses, chemical works and tanneries, the Committee are satisfied that on account of the absence of suitable agencies, such concerns are not flourishing and that some method should be devised to ensure their stability and development.

(iii) Bihar and Orissa.

358. The Bihar and Orissa Committee deal with the following industries; lac, mica, leather, oil and rice mills and other minor industries. With the exception of sugar mills and a tobacco factory which raise their money through managing agents in Calcutta all the concerns appear to have difficulty in obtaining the necessary finance and have to pay exorbitantly high prices for it.

(iv) Bombay.

359. The Bombay Committee call attention to the brass and copper vessel industry as being an instance of an organized industry which is badly in need of financial assistance in all stages of its production. They also refer to other small and middle-sized industries which have difficulty in obtaining necessary funds at reasonable rates of interest.

(v) Burma.

360. In Burma the following industries were reviewed: rice-milling, petroleum, silver and lead, tin and wolfram, electric supply, cotton ginning, rubber, leather, chemical, engineering and building. The large rice mills are financed by the larger banks while the smaller ones are financed by Chettiyars and some advances are also made by private individuals, by Chinese banks and by Dawson's Bank. The industry is not profitable at present, and there has been an appreciable contraction in the credit given by Chettiyars. The other industries deal with the Imperial and the Exchange Banks and some have access to the London money market. The Committee have no proposals to make regarding the financing of these various industries.

(vi) Central Provinces.

361. The Central Provinces Committee have dealt with shellac, oil mills, glass factories, rice-hulling mills and flour mills. In the case of glass factories and flour mills there are difficulties in obtaining financial accommodation, but no specific complaints or recommendations have been made.

(vii) Madras.

362. The Madras Committee considered the case of the leather industry, and also of a few co-operative enterprises connected with sugarcane crushing, manufacture of jaggery, oil-crushing, rice-hulling, groundnut decortication, cotton ginning and the grinding of bones. Conditions, though perhaps not so bad as in some of the other provinces, inidcate that the industries are handicapped for want of adequate financial facilities.

363. Tanning is a very important industry in Madras. It is carried on mostly with owned capital and with funds borrowed from the exporters and the *mandi* merchants. Exporting firms give standing advances in most cases at a rate of interest of about 9 per cent per annum and on the security of the stock in trade and frequently on the additional security of immovable properties. This standing advance is said to make the tanners dependent upon the exporting firms, thus forcing them to sell their goods only through those particular firms. The Southern India Skin and Hide Merchants Association suggest the desirability of such standing advances being made by some banking institutions. The tanners also receive advances from the *mandi* merchants and exporting firms on the despatch of their goods to the extent of 50 to 80 per cent of the probable value. Some of the exporting firms appear to charge interest at 9 to 12 per cent on these advances until the time when they reimburse themselves with the drafts drawn on the shipment of goods. Some of the tanners have dealings with the indigenous bankers for the purpose of obtaining finance for the purchase of raw stocks and the interest on such credits is generally 9 to 12 per cent, though in certain cases it is as much as 24 to 30 per cent per annum.

(viii) The Punjab.

364. The Punjab Committee found themselves unable to spare much time for the consideration of industrial finance. They, however, had certain special enquiries made with the help of the Director of Industries and the Registrar of Co-operative Societies into certain small industries like cotton ginning, oil-milling,

ice-making, flour-milling, iron foundries, collieries, tanning, hardware and sports-gear industries. They found that organized industries financed themselves without serious difficulty at 9 to 12 per cent. per annum. The sports-gear industry of Sialkot complained of lack of sufficient capital and also of lack of facilities for foreign trade. The Punjab National Bank which is the only Indian bank in Northern India with foreign connections is said to charge very high rates as compared with exchange banks in Bombay.

365. Tanning is one of the most important industries of the province and the volume of business was estimated at about Rs. 2½ crores in 1922. Generally this industry is in the hands of very poor Chamars. On account of their poverty, their prejudice against the adoption of new and improved methods, the competition of imported goods and the lack of organization, the industry is said to be definitely on the decline. The tanners generally borrow from three sources, the middleman, the professional moneylender and the co-operative societies. The loans are generally taken either by pledging their ornaments or without any security at all if the tanners have credit. The rate of interest against ornaments is 12 per cent. and against personal security 18 to 36 per cent. Co-operative societies charge 12½ per cent. The middleman also makes a profit by charging a higher price for the raw material supplied and by charging a commission.

(ix) United Provinces.

366. There are various kinds of urban industries, *viz.*, blanket-weaving, embroidery *(chikan)* industry, making of carpets and stoneware, calico-printing, silk weaving, gold and silver thread wiring, brass and copper work, etc. The people who finance these industries are the itinerant dealer, the *karkhandar* and the large dealer or *mahajan*, all of whom supply the raw material and sometimes are agents of larger dealers and depend upon them or the *mahajans* for financial assistance. In those industries where the processes of manufacture are so specialized that they cannot be undertaken by the same set of artisans, the large dealer co-ordinates the different branches of production. To some extent the artisans engaged in these industries are said to be in a state of economic bondage to the middlemen who exploit the ignorance of the artisans and take full advantage of it. The Provincial Committee have not gone into the question of organized industries like cotton ginning, sugar, and oil mills.

Proposals for the establishment of an Industrial Bank.

367. The written memoranda submitted to us, as well as the reports of the Provincial Committees, indicate a general consensus

of opinion that efforts should be made to start an industrial bank or banks to supplement the existing facilities for the financing of industries. The Bombay, Bihar and Orissa and the Central Provinces Committees have recommended the establishment of Provincial Industrial Banks. The Bengal Committee have suggested the organization of a special type of bank to help the middle-sized as well as the large industries. One member of the Madras Committee and three members of the Bihar and Orissa Committee have suggested industrial banks for their respective provinces. The United Provinces Committee have left it to the Central Committee to decide whether there should be one Industrial Bank with provincial branches or separate provincial banks.

368. The general trend of evidence before us was also in favour of establishing a special type of industrial bank or banks to finance industrial concerns. Even the conservative school which emphasized the importance of private effort in the matter of securing the initial block capital thought that in view of the shyness of Indian capital an industrial bank might be of some advantage in mobilizing capital and turning it into channels of productive investment. There was only one doubt *viz.*, whether in the present state of world-wide depression in almost all trades, it would not be inopportune to start this new class of bank to help industries and whether it would not be advisable to await the return of more favourable conditions. On the other hand, the present depression and the difficult conditions through which industries are passing were considered by some witnesses to be the governing consideration favouring the proposals for the immediate creation of the proposed new institution.

369. Opinion is divided on the question whether the institution should be an all-India one with provincial branches, where necessary, or should be started as a solely provincial institution in each province where it is required.

370. The arguments adduced in support of a central institution are :—

(1) The financial position of the Provincial Governments at the present moment is not propitious for starting provincial industrial banks. Under existing conditions it will be more practicable for the Central Government to find the money required either for subscribing to the capital of the bank or for guaranteeing the return on the capital than for each Provincial Government to do so.

(2) It will be easier for an all-India bank to raise the capital required in the shape of shares and debentures than for a provincial bank. The Directorate which will be drawn from the best men in all the provinces will be able to command more confidence and this coupled with their wider knowledge and outlook will make it possible to raise funds more economically and cheaply. The instance of the Madras central land mortgage bank was quoted in this connection, where the central institution was started in order to issue centralized debentures in place of a number of issues by small independent primary banks which were neither popular nor cheap.

(3) An all-India bank with greater resources and with its funds laid out in a variety of industrial concerns will be better able to tide over periods of loss due to general depression and other causes than a number of independent provincial banks. Some witnesses have, on the other hand, stated that if owing to the preponderant voice of the larger industries, the funds of the central institution came to be invested in those industries, the alleged advantages from distribution of risks would be almost non-existent.

(4) An all-India bank would be of immense benefit to the country in guiding its industrial development on sound lines. It will be able, by its experience and knowledge gathered from all parts of India and tabulated by a well-equipped intelligence department attached to the bank, to act as a guide and friend to all industrial concerns in India, young and old. It will prevent uneconomical and wasteful efforts to start industries in places where there are no possibilities and it will itself be in a position to formulate schemes for industrial development besides analyzing and criticising propositions placed before it for financial assistance and support. We have also heard the opposite view from some witnesses that it is not the function of an all-India industrial bank to participate actively in directing the industrial development of the country. In the opinion of these witnesses the industrial survey of the country with a view to exploring the possibilities of development is a matter for private enterprise as well as for the Government concerned; and it would be dangerous for a bank to advise on industrial possibilities, as it will increase the bank's own responsibility in the event of any financial loss.

(5) It will be more economical for a central institution to engage technical experts to advise on industrial propositions throughout the country than for each provincial bank to requisition the services of independent experts and pay for them. Moreover an expert who has acquired experience with a central institution of conditions in all parts of India will be able to give more valuable advice to the bank and industries than one with limited experience in a single province.

371. The arguments advanced by witnesses in support of provincial industrial banks are :—

(1) In regard to the grant of financial assistance by Government, it will be easier for each Provincial Government to find its small share than for the Central Government to meet the requirements, large in the total, of all the provinces.

(2) 'Industries' is at present a transferred Provincial subject and if it continues to be so in any scheme of future political reform in India, it is but proper that any expenditure in connection with financial assistance to industries and industrial banks should be left to be scrutinized and shouldered by the Provincial Government instead of by the Central Government. For this purpose it is necessary that the proposed industrial bank should be organized on a provincial rather than on an all-India basis.

(3) The advantages of a centralized issue of share and debenture capital are real within certain limits. But at the same time, the urge of provincial patriotism and the competition of the Government of India for capital in the all-India markets are factors which have also to be reckoned with.

(4) Provincial banks would be able to look after the requirements of the industries in the respective provinces better than an all-India bank, even though the latter might have provincial branches. The proposed industrial banks should also provide the financial requirements of cottage industries and a central all-India institution would not be able satisfactorily to discharge its functions in this regard. The United Provinces Committee have pointed out that though a single central bank would make both for efficient management and economy, there is a danger of the interests of the smaller industries being sacrificed to

the needs of the larger. The Bihar and Orissa Committee's observations regarding the working of the Managing Agency system in that province from Calcutta and Bombay emphasize the drawbacks of management from a distant centre from the point of view of provincial interests. An important Indian Chamber of Commerce in their evidence have shown their anxiety that even within the province, the interests of one division which is industrially backward should not be over-ridden by those of another division which is industrially more forward and important. It is argued that all this points to the desirability of starting the proposed new institution on a provincial basis.

(5) The economy arising out of the engagement of technical experts at the centre is, it is stated, unimportant, as occasions for the use of their services will be few and far between, and it will be more convenient to engage and pay for the services of the best available expert for the occasion than to engage a whole-time officer for the purpose.

372. One Indian commercial body which has supported an industrial bank for each province has suggested that all the provincial banks may be federated to an all-India institution, with the following functions :—

(i) propaganda and advertisement with a view to mobilizing capital for investment in the shares of provincial banks;

(ii) raising of funds by debentures or loans from the Government of India and distributing them as additional capital to provincial banks in accordance with the requirements of each province;

(iii) controlling the provincial banks with a view to co-ordination and to avoid overproduction in the various industries; and

(iv) laying down general principles for the guidance of provincial banks and examining larger propositions for financial assistance to industries.

373. The foreign banking experts in their first memorandum on the subject were definitely in favour of an all-India institution, but after discussing the constitutional difficulty they modified their views, though they still considered that there should be an inter-provincial organization to secure co-ordination. After fully considering the matter in all its aspects, we think that the

balance of advantage lies in the creation of provincial institutions, our detailed proposals in regard to which will be found in a later paragraph. It will be observed that we do not at the same time rule out the formation of an all-India institution should its need at any time be established to the satisfaction of the Central Legislature.

374. We shall next turn to the examination of the details of the various schemes placed before us.

(i) *Capital—Shares and debentures.*

375. It is proposed that the capital of the industrial bank should be obtained partly from shares and partly from issue of debentures. Some witnesses are for placing a limit on the total amount of debentures to be issued in relation to the paid-up share capital, *e.g.*, a limit of fifteen times and five times the paid-up capital has been suggested. Some others prefer not to have any limit and think that the amount of debentures to be issued should only be limited by the industrial possibilities in the country and that debentures might be issued gradually to any extent required.

376. As regards the initial share capital required for an all-India industrial bank different estimates have been given; some of these are furnished below :—

(1) Rs. 50 lakhs to start with, which may be increased gradually as required. The object is that no more funds should be raised than can be employed immediately.

(2) Rs. 3 crores, on the basis of Rs. 30 lakhs for each province. In view of the potential field for industrial development, this is not considered adequate but it is suggested that it can be supplemented later.

(3) Rs. 10 crores authorized of which Rs. 2 crores may be paid up initially. If the bank issues debentures the large share capital will be a security against the debenture issue.

377. In the case of a provincial industrial bank, one estimate of the share capital required is Rs. 5 crores authorized and Rs. 1 crore paid up. These figures are for the bank in Bombay and are based on the industrial possibilities of that province. It is reported that recently two mills raised debentures to the extent of Rs. 90 lakhs and that another is trying to raise money up to Rs. 25 lakhs and that the provincial bank should at least have a paid up capital of Rs. 1 crore so that with that initial capital and with the additional funds raised by means of debentures, the Bank may be able to meet fully the requirements of the industries in the province.

(ii) *Receipt of deposits.*

378. Opinion among witnesses is divided on the question of the receipt of deposits. One prominent Indian joint-stock banker is of opinion that the industrial bank should not receive deposits for a shorter term than 3 years, and that it should raise the funds required by means of debentures. The period of 3 years has been suggested for the reason that if the proposed industrial bank received yearly deposits, it would necessarily compete with the other indigenous banks. Another witness has suggested that industrial banks should receive current and short-term deposits and do the ordinary commercial banking business, during the early years of their existence. He has added that the suggestion to restrict the receipt of deposits to those for not less than 3 years is not practicable, as in his opinion people would not be prepared to place with a bank deposits for such a long period as 3 years. At the same time, these short-term deposits should, in his opinion, be judiciously laid out, and the fatal error of making long-term investments from short-term deposits should be avoided. Another witness again has suggested that industrial banks should obtain funds by long-term deposits, say for 5 years, and has pointed out that if the bank's stability is guaranteed by the State, such long-term deposits will be forthcoming. The Managing Governor of the Imperial Bank of India has stated that though it is possible for an industrial bank to finance both block and working capital by means of combined long-term share capital and debentures and short-term deposits, the two functions should preferably be kept entirely separate in different institutions which specialize in these particular forms of finance. The recommendations of the Industrial Commission which are relevant in this connection are quoted below :—

> "It appears to follow that an industrial bank with a sufficiently large capital to ensure its safe working must, at any rate for some time, combine ordinary banking business with its industrial activities to enable it to obtain a return on its capital. But it cannot be too strongly emphasized that, in such case, the clearest possible distinction must be drawn between industrial finance and ordinary banking business. Share and debenture capital and long-term deposits may legitimately be used for the former purpose, but short-term deposits never; and any attempts to employ them should be most strictly prohibited, if necessary by law."

The Bengal National Chamber of Commerce, however, takes exception to this point of view and considers that the main function of the bank should be to provide initial capital.

(iii) *Nature of Government assistance.*

379. In order to mobilize capital for the industrial banks, various measures of Government assistance have been suggested :—

(i) Guarantee of interest on share capital.

(ii) Guarantee of share capital.

(iii) Guarantee of interest on debentures.

(iv) Guarantee of principal of debentures.

(v) Inclusion of debentures in the list of trustee securities.

The first measure has been suggested in view of the past experience of the public. If such guarantee is given, it is hoped that the required initial share capital will be forthcoming. Some have suggested that the guarantee should be limited, as in the case of railways, for a period, say, of 5 or 10 years. Others consider that the guarantee should be permanent, but that the rate of interest guaranteed should be subject to revision every five years, though they agree that a fixed rate would be more acceptable to the public. It is said that if Government give a guarantee of interest, it would obviate the necessity of Government having to find the necessary capital themselves.

The second measure has been recommended by one of the leading Indian Chambers of Commerce on the ground that without it the bank would not be able to attract sufficient capital. When the possible reaction of this suggestion on the management of the bank was pointed out, it was stated that a few Government directors on the board would be able to guard against the danger, though they might have no power of veto.

The third measure has been favoured generally by most of the witnesses. Some of the witnesses who have suggested guarantee of interest on share capital do not think that Government guarantee in respect of debentures is necessary, as the debentures will be issued on adequate securities, though others want to have a double guarantee in respect of interest on both share capital and debentures. As regards the question of limiting the liability of Government in this matter, it has, on the one hand, been proposed that Government should guarantee the interest on debentures issued during the first five or ten years. On the other hand, an important Indian Chamber of Commerce thinks that no limit should be placed on the guarantee in view of certain practical difficulties in the matter. For example, supposing the industrial bank finances several industries like the iron and steel industry, the cotton industry and so on, the guarantee will have to last till the business becomes a paying concern, and the period required to reach the profit-earning stage varies from industry to industry. It believes that the failure of a properly managed bank worked on sound lines

will only be a remote contingency, and as an extreme case, a provision might be made for Government winding up the business of the bank after a reasonable trial. It therefore favours the principle of indefinite guarantee with certain reservations.

The fourth measure is recommended in case it is considered necessary. The Industrial Commission reported that "a powerful and well-directed stimulus is needed to start the economic development of India along the path of progress. Such a stimulus can only be supplied by an organized system of technical, financial and administrative assistance". It has therefore been suggested that Government should follow an active and energetic policy of encouragement and support, and should undertake the responsibility of lending financial assistance of industrial banks, either in the shape of direct subscription of capital, or in the form of guaranteeing repayment of capital and interest in respect of debentures issued by them. The interest of Government could be safeguarded by the nomination of a Government director on the board of the bank in addition to a director to watch the interests of debenture holders.

The last measure has the general support of witnesses, though a prominent Indian banker thinks that at the present stage the debentures should not be treated as trustee securities and that the results of the working of the proposed new institution will have to be watched before such a step is taken.

380. It may be added that a few witnesses including one of the European Chambers of Commerce are not in favour of any guarantees by Government. They observe that the business of any bank, the interest on the share capital of which is guaranteed by Government, would of necessity be very limited and inelastic, as it would not be prepared to take even the ordinary risks which every bank runs in making an advance to a customer.

(iv) *Nature of Government control.*

381. In view of the various suggestions made for financial assistance by Government, some kind of control by Government over the management and the activities of the bank is generally admitted to be necessary. It has been suggested in the first place that the following restrictions on the activities of the banks may well be placed :—

(i) The bank should not lend more than 10 per cent. of its capital to a particular industry or to a particular group of industries. Some witnesses would go so far as to raise the limit to 25 per cent and to include the reserves of the bank with the paid-up capital for purposes of this rule; while others would reduce the limit to 5 per cent.

(ii) Advances should be made only after the prospects of the industrial concern have been declared to be favourable by the Government or the bank's technical expert. An Indian Chamber of Commerce has suggested that Government may employ a competent expert to advise and report to them about the nature of the bank's commitments and its financial position from time to time.

(iii) Applications for loans should be entertained only after 50 per cent. of the required capital of the company has been subscribed and paid up. This would mean that the industrial bank would not take the whole risk and that the promoters and the public would also take a substantial risk. Some witnesses who accept the principle of this restriction have stated, however, that they are not wedded to the figure of 50 per cent.

(iv) The bank should satisfy itself that the management of the industrial concern is in the hands of competent people having enough experience in the particular line. One of the Indian Chambers of Commerce has suggested that following the model of German banks, the proposed industrial bank should retain some control over the industrial concerns which it helps or promotes. One witness has gone so far as to say that the industrial bank could claim all the rights of a partner in the industrial concern without the liabilities.

382. In the second place, it has been proposed that Government should have an active voice in the management of the bank by the appointment of one or two representatives of Government as directors of the bank, with or without the power to vote or to veto. One important Indian Chamber would prefer the appointment of these directors by the Legislative Assembly, though it is not particular that the selection should be made from among the members of that body. Witnesses are not generally agreeable to concede the right of veto to the Government nominees, as they consider such rigid Government control neither necessary nor desirable. If Government only guarantee the interest on the share capital or on debentures or on both, the directors of the bank who will be all keen and practical businessmen may, in their opinion, be expected to conduct the affairs on sound lines in the interests of the shareholders, and the interests of Government can not be more important than those of the shareholders so as to render the grant of powers of veto to the Government director necessary. The opposition of some of the witnesses to the grant of the right of voting to the Government director is probably based on the precedent of the

position of the Government representative on the Central Board of the Imperial Bank of India, but it is apparently overlooked that in addition to the non-voting Government official on the Board of that Bank, there are four directors nominated by Government who have the right to vote.

383. In view of the burden placed on the Indian taxpayer by the various proposals for Government assistance, it has been suggested that a limit should be placed on the extent of non-national participation in the share capital of the industries which the bank is called upon to finance and also in the share capital of the industrial bank itself.

(v) *Nature and scope of advances.*

384. Most of the witnesses who have advocated the scheme of an industrial bank have done so with a view to provide finance for a part of the initial block capital of industries and for the capital required for any future extensions, such finance being provided either in the form of a direct loan to the industrial concern or by under-writing the capital issue of the concern. They think that the bank would be of great use in regard to new and young industries, though they have no objection to old and well-established industries, such as cotton and jute mills, being also financed by the bank. They contemplate that existing commercial banks will continue to provide working capital to industrial concerns from their short-term deposits on the security of the liquid assets of those concerns. But in cases where such accommodation is not easily forthcoming from commercial banks, the proposed industrial bank will provide also the working capital. Moreover it is possible that in order to keep its funds fully employed and to meet the convenience of industries, the industrial bank may find it necessary to engage in the financing of both the short-term and long-term needs of industries, though a few witnesses consider that it would be more advantageous that the industrial bank should specialize in the grant of long-term loans for financing block capital. It has also been suggested that it will take some time for the industrial possibilities of the country to be investigated and for new organized industries to be started, and meanwhile it is proposed that the industrial bank should develop the cottage industries whose importance from the point of view of the well-being of the rural populations cannot be underrated.

The German system of providing finance for industries.

385. We are aware that in the various proposals put forward by Provincial Committees and by witnesses before us they have been influenced by what they conceive to be the relation between banks and industry in Germany. We have had the benefit of studying a recent book on "Joint Stock Banking in Germany" by P. Barrett

Whale, which has been considered by the German expert on Industrial Banking appointed to advise us as the only comprehensive and neutral study of the subject giving the facts with careful comments and cautious conclusions. We propose to give here a brief description of the relations between banks and industrial firms in Germany as gathered by us from a study of this book and our discussions with the experts.

386. An industrial firm in Germany has what is called a current account connection with its bank, which is distinct from the current account as used in relation to banks and their clients in England or in India. In the ordinary current account connection, the customer is sometimes in debt to the bank and sometimes has a balance to his credit. Many claims thus arise on both sides which are not settled individually but are settled periodically, usually every six months. The extent of the customer's indebtedness, the maximum period for which it may be outstanding, and the security to be given, are fixed by agreement from time to time after consideration of all the circumstances of the case. The current account advances are used by the average German firm not only for the purpose of providing itself with working capital but also for supplying block for extensions in anticipation of recourse to the investment market.

387. Industries in Germany provide themselves with initial capital in two ways. Either the promoters invite the public to subscribe the capital and to help to bring the company into existence; or the promoters themselves take over the entire capital in the first instance with the intention of placing the shares among the public subsequently. Although promotion of industrial companies by subscription was the general practice at an early period of German industrial development, the second method is said to have completely supplanted the first in later years. In connection with the second method of promotion, because the investing public either require a lead or feel a reluctance to decide on participation in an undertaking before it is fully launched, banks in Germany have played an important part in providing the greater part of the initial capital, which is subsequently placed among the investing public either by offering them for public subscription or by direct sale to customers or to banking firms in relation with the banks. In order to reduce the risk borne by a single bank, and to ensure the success of the issue, it is very common for several banks (or bankers) to join together in what is called a *konsortium* and pledge themselves to accept a certain portion of the issue. It is important to notice that the investment of German banks in shares of industrial companies is not a long-term investment and is resorted to merely as a safe and liquid investment for part of the bank's resources in first class securities. It is not inconceivable that circumstances may arise when on account of the issue

proving unsuccessful, the banks may be compelled to hold the securities almost indefinitely. But such a situation is regarded as involuntary and incidental. From the bank's point of view, its participation in the promotion of new industrial companies is considered useful for acquiring business connections or extending the bank's influence.

388. It will thus be seen that when industrial companies wish to procure new capital, whether from existing shareholders or by issue of new shares or debentures in the general capital market, the German company arranges the transaction with the bank with which it is in permanent banking relations. The ordinary banking business in which deposits from the general public are employed is decidedly the most important business of German banks. In addition, there is a department for industrial and similar finance, with a limited share of the bank's own resources, for carrying on financial transactions arising from time to time in the relations of the bank with the industrial and similar joint-stock companies. These financial transactions require a certain amount of capital investment which is kept in conservative relation to the share capital and reserves of the bank. While it remains more or less stable in the aggregate, its composition is changing as quickly as market conditions will allow. If the public is not responsive to the offer of securities resulting from such industrial financing, it follows that the banks cannot continue their assistance to industries until the public is again prepared to put up the new capital required.

OUR PROPOSALS.

Some General Principles.

389. In the preceding paragraphs we have given an account of the financial requirements of industries in India as placed before us by witnesses and by the Provincial Banking Committees and we have described the various proposals which have been placed before us for improving the present position. We shall now proceed to record our conclusions and to make our recommendations.

390. We must admit that some misapprehension exists in the minds of some of the people who have favoured us with their views about the proper function of banks in the matter of providing industrial capital. Generally speaking, initial block capital for industrial enterprises should be put up by private or public subscription. Such block capital for subsequent improvements and extensions as is not provided out of undivided profits should be supplied by increase of share capital or by issue of debentures; but pending a favourable opportunity for such further issues of share or debenture capital, commercial banks might be expected

to supply finance for these purposes in the form of temporary advances provided that adequate security is forthcoming. Further the ideal arrangement is that industrial enterprises should also provide out of their initial capital the minimum necessary working capital, the amount of which will depend on the particular facts connected with each industrial enterprise. Any extra requirements of working capital over and above this minimum might be met by short-term advances by commercial banks which will be entitled to require that the industrial enterprise maintains a safe and proper relation between owned and borrowed capital.

What commercial banks in India can do.

391. We consider that in India, in connection with the issue of shares and debentures by industrial companies, such of the existing commercial banks as are well established and carry on their ordinary banking business on the safest and soundest lines, might with advantage to the industries follow, as far as possible, the German system. We do not, however, think that it is to the advantage either of the commercial banking system or Indian industries that any of the weaker banks should participate in such industrial financing. This new class of business requires much experience and an established policy of sound banking. It also demands considerable capital and a firm resistance to the speculative temptation which easily arises in a line of business where securities are created and sold. The bulk of the joint-stock banks in India are at present not ready for this activity, and even the larger ones can cultivate it only slowly, with great caution and preferably under competent guidance, as participants in strong syndicates. It is, however, possible that the Imperial Bank of India may, as soon as a Reserve Bank comes into being, make a start in the above direction and give a lead. In fact some witnesses have proposed that, when the Reserve Bank is established, the Imperial Bank of India should be converted into an industrial bank and the enormous experience and training of its officers should be directed to this branch of banking to the great benefit of the country. It must be recognized that this is a matter which entirely depends on the wishes of the shareholders of the Bank. We desire, therefore, to state that our recommendation is in the nature of a suggestion to the shareholders of the Imperial Bank of India and we are sure that if our suggestion is carried out, it would not only promote the general industrial development of the country but would also be equally profitable to the Bank itself.

392. The total capital and reserve of the Imperial Bank of India amount to Rs. 11 crores. Similar figures for the nine big Indian joint-stock banks are Rs. 7·5 crores. If 10 per cent. of the total capital and reserves of these ten institutions are utilized in the manner suggested by us in the preceding paragraph, we hope that

with the co-operation of the public, which will, on account of the increasing association of banks with industrial shares and debentures, have greater confidence in these securities, it will be possible for the commercial banks in India to render to industries in India financial assistance of no mean magnitude.

393. We have referred in a previous paragraph to the practice in the cotton mill industry in certain centres of India of depending on deposits from the public for financing block capital. We agree with the criticism that has been made that dependence on such deposits has its dangers, especially at a time of depression. We are of the opinion that capital which is required either permanently or for long periods should be raised by means of shares and debentures and not by means of deposits. It is therefore desirable that with the co-operation of banks these deposits should be replaced by share or debenture capital as soon as possible. We contemplate that these conversion operations should be slowly and gradually undertaken by banks as part of the new line of business which we have recommended above.

394. We have heard it in evidence that it is necessary for a commercial bank to have technical experts on its staff to facilitate its operations with industrial concerns. We do not agree with this view, as it is not possible to cover the technique of all the industries by such an arrangement. We consider it useful that a commercial bank which has business relations with industrial firms should have somebody on the management, say an Assistant Manager, who is fully conversant with the financial side of industries in general. We understand the Imperial Bank of India have special departments in the local head offices for this purpose.

395. Witnesses have referred to the need for a sympathetic attitude on the part of banks towards industries. We realize that that is the secret of the German banking policy in respect of industries. German banks delegate a member of their management to act on the Board of Supervisors of companies with which they have business relations in order to maintain a close connection with those companies. The presence of these bank delegates is of considerable use to the industrial undertakings in view of their general experience in finance. It is also of advantage to the banks themselves as a measure of protection against losses. In fact the system of close intercourse between banks and industries thus brought about creates an atmosphere of mutual confidence with resultant benefit to both parties. It is, however, essential that the banks must not allow themselves to be drawn into liabilities and investments which are not compatible with sound banking. We consider that this successful German model may be copied by banks in India which may establish useful liaison between themselves and industries by appointing one of their Managing Directors or Managers as one of the directors of the industrial

concerns financed by them. Besides the furnishing of periodical balance sheets, and the representation of a member of the bank's management on the boards of companies, it is necessary, for the establishment of an effective liaison, that the entire banking business of an industrial concern requiring accommodation from a bank should be concentrated in the hands of one bank and not split up among several banks.

396. With the same end in view, *viz.*, the creation of a sympathetic attitude on the part of banks towards industrial concerns, we recommend the appointment of local Advisory Committees in banks. We have already referred to the establishment of local boards by the Bank of India, which have replaced the Bank's shroff in the matter of providing the Manager with reliable information regarding the status and financial position of the Bank's clients. We agree that such local boards are very useful and desirable not only to help the bank in assessing the financial position of its clients but also in removing from the minds of its clients the suspicion of unfair or unsympathetic treatment. In order not to weaken the responsibility of the management it is, however, necessary that these local boards should be invested with functions of a purely advisory character, and should be appointed by the Board of Directors of the bank. The Board of Directors will no doubt choose for the advisory boards leading men in local business and industry, who, in their opinion, will command the confidence of the public and especially of the bank's clients.

397. We have referred to the complaint that banks in India insist on the full backing of liquid assets for their loans and take no account of valuable block capital. We have ascertained that banks in Germany make their advances on the security of block, the liquid assets of the industrial enterprises being left unencumbered as security for suppliers of raw materials to the industries. In Canada, banks are prohibited by law from advancing against immovable property and advances are secured by liquid assets; but banks are allowed to take real estate as additional cover to existing debt. The practice thus varies from one country to another, and no hard and fast rule can be laid down regarding the form of security for advances. Even in India the practice is not uniform in all parts. Joint-stock banks in the Punjab make advances on the security of block to the extent of 20 to 30 per cent. of its estimated value, the limit having been 50 per cent. before 1926. While we recognize that the question of deciding about the nature and adequacy of securities offered for loans should be left to the final decision of the banks themselves, we sympathise with the witnesses who plead for a more liberal policy on the part of banks in the matter of advances. In particular, we consider that industrial concerns in India may reasonably expect to have the whole of their working capital supplied by commercial banks if adequate security to the

satisfaction of the banks is offered and if it is recognized by the industrial concern that the banks can demand repayment of the whole or part of the amount lent if they find it necessary to adopt such a course.

398. It is further commonly complained that banks in India lend much less on personal security than in other countries, and that this practice is specially inconvenient to the cotton mills in Ahmedabad which take deposits from the public, as the grant of security by the mills in the form of hypothecation of stock would affect most prejudicially the whole fabric of the mills' credit. We have dealt at some length in another chapter of our report with the causes that have led banks in India to demand tangible security as cover for their advances. We wish to state here that according to our information the grant of advances on personal credit in western countries is limited to big firms of undisputed standing. We cannot therefore recommend an indiscriminate extension of the system of granting clean credits by banks in India, but we hope that with the increase in the number of similar large firms in India the reluctance of banks to lend without security will gradually diminish. We have had no evidence regarding the policy followed by the Imperial Bank of India and other joint-stock banks in the matter of advances to existing firms of standing and repute. If, however, these banks make no difference between borrowers of different standing and follow the same policy in either case, we must then plead for a change of policy on their part both in the interests of the industry and the interests of the good name of the banks, as otherwise the banks' methods might be stigmatized as primitive and undeveloped.

Provision of long-term capital and the fiscal policy of Government.

399. In making our recommendations in the previous paragraphs as to the various directions in which existing banks in India can make themselves more serviceable to industries, we have more or less accepted the position that the industries in India generally need financial assistance for block and working capital over and above what is available to them at present. After studying the evidence placed before us and before the Provincial Committees, we have further come to the conclusion that as regards initial capital for promotion of industries the existing facilities are so inadequate that the proposals we have made in the previous paragraphs will not fully meet the situation. The public in India prefer to invest their savings in Government securities and in Municipal and Port Trust loans to investing in industrial securities. This state of affairs may be partly due to the principle of 'safety first' followed by Indian investors; but we attach great importance to the opinion of several witnesses which has been confirmed by those of our colleagues in the Committee who are bankers, that

confidence on the part of the investor in securities of the latter kind would have been greater, and consequently his willingness to invest in them, if the investor had the knowledge that decisions relating to industrial and fiscal matters rested solely and finally with the government of the country responsible to its legislature. We also consider that the high rates of interest paid on Government borrowings in recent years have been partly responsible for the relative popularity of Government securities as compared with industrial shares and debentures. It may be asked how a change in the present position regarding fiscal policy would help to direct capital to industries, if Government securities continued to carry high rates of interest as at present. We think that a nationalization of the country's fiscal policy would, with similar reforms in other spheres of national life, enable industrial investments to become equally attractive with Government securities.

400. We give below figures showing the net capital invested annually in joint-stock companies from the year 1910-11. These have been taken from the statistics of paid-up capital of companies given in the publication of the Director General of Commercial Intelligence, Calcutta :—

	Rs. (Crores.)
1910-11	2·6
1911-12	5·3
1912-13	2·7
1913-14	4·5
1914-15	4·2
1915-16	4·3
1916-17	5·9
1917-18	8·2
1918-19	7·5
1919-20	16·6
1920-21	41·2
1921-22	66·1
1922-23	29·2
1923-24	5·5
1924-25	10·2
1925-26	1·4
1926-27	—·05
1927-28	—·5
1928-29	2·9

It will be seen from the above figures that except in a few years of abnormal activity the funds available for promotion of companies have always been small and that the complaint that private subscription to the share capital of industrial undertakings is not adequate is fully justified. As stated in the earlier paragraphs of this chapter, the need of encouraging industrial development

has long been felt in India. In view of the unfavourable world outlook for agricultural produce, industrialization has been pressed in other countries in order "to strengthen the home market, improve trade balances and reinforce the very basis of the public revenue". These reasons, coupled with the necessity of making India more self-sufficient and less dependent on agriculture, make it imperative that some steps should be taken to mobilize her resources for the promotion of new industrial undertakings and for the expansion of existing ones.

Provincial Industrial Corporation.

401. We assume that the development of industries within their territories will be one of the functions which would vest in the provincial Governments under the constitution. We therefore recommend that, as an exception to what is stated in paragraph 390 above, if a provincial Government in the discharge of its responsibility for the development of industries within its territories finds it necessary to ensure the supply of financial facilities to industrial concerns, a Provincial Industrial Corporation, with branches, if necessary, and working with capital initially or permanently supplied by the provincial Government should be established. This recommendation is based on the assumption that the impending changes in the constitution of India will obviate any undue interference on the part of the central authority with the borrowing powers of the provincial Governments as may have taken place in the past. We note that five of the Provincial Banking Enquiry Committees have recommended the establishment of such institutions and have referred to particular types of industries which need financial assistance. Our proposals cover the case of such industries, but they are not necessarily restricted to them. We have carefully considered the question whether we should define in any way the classes or the character of industries which might expect to be financed by the proposed corporation, but we have come to the conclusion that such definition is not called for. Circumstances vary from province to province and we think it undesirable to fetter in any way the discretion of provincial Governments in a matter which is of fundamental importance from the point of view of provincial development by suggesting hard and fast criteria for the grant of assistance by the proposed corporation. At the same time, following the Indian Industrial Commission, we hold that the advisability of giving assistance in any particular case should depend on the extent to which the enterprise will be of benefit to the public, and will add to the productive power of the province and provide employment for its people, and not merely on its probable advantage to the promoters of the industry.

402. It is not possible for us to estimate what should be the initial share capital of the proposed corporation. The amount

would naturally depend on the conditions of each province. We should prefer that the Corporation obtains its share capital as far as possible from the public; but in view of the obvious limitations in the present circumstances of India, it is necessary that Government should take such portion of the share capital of the Corporation as cannot be raised by public subscription. We do not approve of the suggestion that Government should guarantee the share capital of the Corporation or the dividend on such capital, as in our opinion provision of share capital by the Government would give greater confidence to the public than either of the other two measures. Moreover, the shareholders in an ordinary Corporation should be prepared to go without dividends for a certain initial period and we do not think it is reasonable to expect Government to guarantee dividends on shares in regard to the Industrial Corporation. It might further be cheaper from the point of view of the Corporation that Government should borrow and supply any deficiency in share capital than that the Corporation should raise the whole of the share capital even with Government guarantee of dividend.

403. The share capital should be supplemented by debenture capital not exceeding at the outset twice the amount of the share capital. There should be no difficulty in raising this proportion of debenture capital if the investments of the Corporation are sound. If in order to attract investment in such debentures it is found necessary that Government should offer a guarantee of interest on them, Government may give a limited guarantee, *e.g.*, limited to the first issue of debenture or limited to a certain period of currency of the debenture issue.

404. We are aware that in connection with the issue of debentures by co-operative banks provincial Governments have undertaken to subscribe to the issue. We recommend, that they might follow a similar arrangement in the case of debenture issues of the Provincial Industrial Corporation and that they might, if necessary, purchase a portion of these issues until a regular market has been created for them.

405. We have already referred to the suggestion by some witnesses that the debentures of the Industrial Corporation should be classed among trustee securities. We do not support the proposal until the results of the working of the Corporation are known for a certain period, say five or ten years. The question should then be examined by Government in due course.

406. The Industrial Corporation we have proposed may secure additional resources by taking long-term deposits from the public; but an immediate beginning with deposits for less than two years is undesirable, as it is our intention that the proposed Corporation should specialize in the provision of long-term capital to industries which should continue to obtain their working

capital from existing institutions. When long-term deposits are taken, the money thus acquired should not be lent out for longer periods than the currency of the deposits. We do not think that these restrictions would in any way hamper industries for whose benefit the Corporation is being established. On the other hand, we attach great importance to the fact that an institution working with special patronage from Government should not compete with private joint-stock banks to whose development in the future we are looking forward.

407. In order to safeguard the interests of Government, we recommend that in cases where Government subscribes to the share capital or debenture capital of the Corporation, or guarantees the interest on its debentures, it should be entitled to be represented on the Board of Directors of the Corporation during the continuance of such interest in, and liability for, the concern. We have carefully considered the question whether the Government representative in such cases should be invested with the power of veto in the deliberations of the Board. We do not approve of such a provision. We think, however, that should a provincial Government so desire, the Government Director may be entitled to ask for a reference to the Government if he does not agree with the views of the majority of the Board in regard to important matters like increase or reduction of capital, granting of loans in any particular cases and appointment of chief officials of the Corporation.

408. In our opinion, it is not advisable to fetter the discretion of the management of the new Industrial Corporation in regard to the grant of advances in the manner suggested by several witnesses before us. But we recommend that by-laws should be framed by the Corporation defining the conditions under which financial facilities may be granted by it to industrial concerns in order to ensure that the business of the Corporation is done in a fair and impartial manner; and that so long as Government has an interest in the Corporation, either on account of its holding a portion of the share or debenture capital or its guaranteeing interest on the debentures, such by-laws should require the sanction of the Government.

An all-India Industrial Corporation.

409. There are and will be certain industries mostly of a national or important character the development of which will fall within the functions of the Federal or the Central Government and not of the provincial Governments. Further, provincial Governments may themselves seek in certain other cases the formation of an All-India Corporation to secure proper liaison in the matter of finance, and a direct connection with the large spending depart-

ments of the Central Government, as well as direct correlation for the industries as a whole with railway rates, customs, stores purchase and other policies of the Central Government. There must therefore be cases in which the vehicle of giving financial aid to industries should preferably be an All-India Industrial Corporation. As the Central Government will practically have no territory of its own and as the collective benefit from the All-India Corporation will flow back to the provinces, the general economic considerations leading to the establishment of such an All-India institution may find strength from the support of the Provincial Governments. We should like it to be clearly understood that our recommendations do not rule out the formation of such an institution when its need is established to the satisfaction of the Federal or the Central Legislature. Pending the formation of such an institution, we contemplate that the provincial Corporations should for matters of common interest combine into a Central Association like the Central Association for banks which we have recommended elsewhere.

POINTS OF DIFFERENCE WITH FOREIGN BANKING EXPERTS.

410. It remains for us to comment on a few points in the separate report of the foreign banking experts which relate to certain conclusions of ours in this chapter.

411. The experts do not subscribe to the statement in paragraph 397 that industrial concerns in India may reasonably expect to have the whole of their working capital supplied by commercial banks if adequate security to the satisfaction of the banks is offered. They also consider the use of the expressions 'ideal arrangement' and 'minimum working capital' used in paragraph 390 as too weak. After our discussion with them we feel that there is no difference between their views and ours on any question of principle. As regards the use of the expression 'minimum working capital' we find that on page 9 of Karin Kock's "Study of Interest Rates" (Stockholm Economic Studies, No. 1), reference is made to the demand for working capital over and above the *minimum* required for financing the minimum amount of stocks or raw material held in the ordinary course of business, which demand is usually covered by short-term borrowing. We do not therefore see anything "weak" in our use of the expression. In the course of discussion it also seemed clear that after a concern had been working for some time it might have considerable reserves in the nature of investments against which it might quite legitimately obtain the whole of its working capital from banks, and none of our banker colleagues considers that there is anything objectionable in such a course.

412. The foreign banking experts consider our proposed scheme of Provincial Industrial Corporations as unsound and suggest that the work of the Corporations should be restricted to pioneer enterprises of a non-competitive character, the opening up of mineral resources and large public utilities, principally electrical power schemes. In their opinion small industries should be removed from the scope of the financial assistance to be given by the Corporation, and financial assistance by Government to the Corporation should be confined to the taking up of the share capital. As regards the scope of the proposed Corporations, we would observe in the first place that the experts have not given due consideration to the unanimous opinion of the Provincial Committees, and the need brought out in their reports, for financial assistance to existing small and middle-sized industries. In the second place, the experts seem to have overlooked the fact, or what is more probable they were unaware of it, that the Industrial Commission of 1916—18, after a careful study of the need for industrial development in India, recommended in paragraphs 293 to 301 of their report that Government loans to industries, which would according to them be replaced eventually by loans from industrial banks, should be given to small and cottage industries, to middle-class industries, as well as to large industrial undertakings. In the case of the last named categories, they observed :—

> "The advisability of giving such aid depends on the extent to which the starting of the enterprise in question will be of benefit to the public, and not merely on its probable advantage to the promoters of the industry. Thus, the starting of a new or the improvement of an existing industry, when such a measure is required to supply an existing deficiency in the interests of national safety, is clearly a case for direct aid. There may also be a few cases where a new industry or process will have such an important bearing on the economic development of the country as to deserve Government help. Finally, it may even be found that the extension of an existing industry to a new locality will benefit local consumers or producers so markedly as to merit Government assistance."

We prefer to be guided in the matter by the conclusions of the Indian Industrial Commission. In the course of discussions with us, it appeared that some at any rate of the experts had no objection in principle to the industrial bank extending its operations over a wider range of industries, but they were apprehensive that this would result in risks which it would be unwise for an industrial corporation to undertake at the earlier stages of its existence. In their separate report, the experts base their objection to our

proposals on the ground that these would involve the taxpayers in serious losses. We consider that the interests of the taxpayers would be more effectively safeguarded by the provincial Governments responsible, as they will be in the near future, to the elected representatives of these taxpayers than by the imposition of arbitrary limitations on the operations of the industrial corporations, which may have the effect of defeating the object for which we want to see them established. We have already recommended that by-laws should be framed by the corporations to define the conditions under which financial facilities may be granted by them to industrial concerns; and that such by-laws should require the sanction of Government so long as Government has an interest in the corporation. We have no doubt that in framing the by-laws some general provisions will be incorporated on the lines indicated at the end of paragraph 408 above; and that all proposals for financial assistance from industrial concerns would be carefully and fully scrutinized from every point of view by the Corporations and that they would also take the customary precautions against loss which any sound banking concern would naturally take.

413. As regards the actual forms of financial assistance that Government should give to the Industrial Corporation we have proposed that subscription to the share capital should be limited to that portion which cannot be raised from the public, and that Government may, in order to attract investment in debentures issued by the Corporation offer a limited guarantee of interest on such debentures and also take up a portion of the debentures until a regular market for them has been created. The suggestion of the experts that Government should not give any assistance in respect of debenture capital does not take into account the special Indian conditions. It has been our experience in connection with co-operative banks that the two forms of Government assistance proposed by us in connection with debenture capital are valuable in creating confidence in the minds of the investing public. Here too, therefore, we are unable to modify our conclusions.

GOVERNMENT AND INDUSTRIES.

414. Before we conclude this chapter, it is necessary to describe the part played by Government in the provision of finance for industrial concerns.

In three provinces, there are statutory provisions for the grant of assistance by Government to industries, namely, the State Aid to Industries Act in Madras and Bihar and Orissa and the Industrial Loans Act in the Punjab. All these Acts were passed in 1923. Under the Madras Act, Government can aid new and nascent industries or industries newly introduced into an area or cottage industries, provided that the concerns are registered in

India as rupee companies and comply with the Government rules regarding the constitution of the Board of Directors. The assistance consists of loans, guarantee of cash credits with banks, taking up shares or debentures, guaranteeing interest on capital, grant on favourable terms of land or raw material and grant of subsidies for research. The Bihar and Orissa Act is modelled on the lines of the Madras Act and its object, apart from propaganda, demonstration and technical assistance, is to give long-term finance to suitable industrial enterprises, in the shape of direct advances at low rates of interest, subscription to debentures, guarantee of cash credits with banks, supply of machinery on hire purchase basis and granting of land and other Government property on favourable terms. Applications for assistance for Rs. 10,000 in any of these forms have to be advertised and objections invited in three successive issues of the local official Gazette and the loan has to be formally sanctioned by a majority of the members of the Board of Industries. This publicity and formality, considered necessary in the interests of the tax-payer, is stated to affect the credit of the applicant which is further damaged if the application is refused. Owing to lack of technical and engineering qualifications on the part of the Director of Industries and his staff, and the incompleteness of the enquiries conducted by the Board of Industries whose members are all busy men, it is stated that serious losses have been incurred. The rate of interest on advances is 6½ per cent. per annum, and loans cannot be given to the old established industries unless they have been started in a new area. In the Punjab, loans under the Industrial Loans Act are generally limited to Rs. 10,000, and only twice has this limit been exceeded. The minimum loan is Rs. 500 the rate of interest 6 per cent per annum, and the maximum period of loan 10 years, though the period actually allowed is only 5 years on the average.

415. The total loans granted or guarantees made by the Madras Government amount to Rs. 8 lakhs, of which about a sum of Rs. 4 lakhs of loans including interest given to one paper mill has had to be written off. It is reported that prospects of recoveries in certain other cases are also doubtful. The Madras Committee add that Government's attempts to assist industries have met with little response and less success. The total amount actually paid or guaranteed up to date in Bihar and Orissa is also about Rs. 8 lakhs of which a sum of Rs. 3 lakhs has proved to be irrecoverable. The Committee add that the Director of Industries in the province expressed a desire before them to be relieved of the heavy banking responsibility placed on him in the matter of the working of the Act. In the Punjab, the total amount of loans outstanding at the end of 1929-30 is reported to be Rs. 2·53 lakhs. The Committee find it difficult to say if the working of the Act is likely to involve the Government in financial loss.

416. Although there is no Act in Bombay corresponding to those in Madras, Bihar and Orissa and the Punjab, the Government of Bombay finance industries through co-operative societies by means of loans or supplies of implements on the hire-purchase system. The Bombay Committee report that during the last seven years loans were given to two concerns, namely, Rs. 6 lakhs to a sugar factory and Rs. 5 lakhs to a weaving factory. The Committee recommend that there should be an Act for State aid to industries so that the policy of assisting industries which hold out a reasonable prospect of success and which are likely to assist in the economic development of the country may be pursued systematically; for this purpose the Department of Industries should be endowed with sufficient resources, charged with definite functions, and invested with authority to carry out the industrial policy of the Government. They also suggest that there should be close co-operation in regard to the development of industries between the Department of Industries, the Department of Agriculture and the Co-operative Department. Facilities at State expense for research into processes of production and methods of organization are also recommended.

417. The Bengal Committee also propose that a State Aid to Industries Act for the province should be passed without further delay on the lines of the Acts in Madras and Bihar and Orissa but with modifications on more liberal terms. A Bill with this object in view is at present before the local Legislative Council. The Central Provinces Committee too have supported the passing of a State Aid to Industries Act on the lines of the Bill that recently failed to materialize into law, which would give wide powers for granting credit facilities to deserving medium-sized as well as big industries. The Central Areas Committee also have suggested that the local Governments should extend to these areas the benefits of the Madras State Aid to Industries Act with the addition of a provision for granting, free of charge, or on favourable terms, the services of Government officials and experts for starting, and offering advice in connection with, the industries. They have added that the possibilities of developing small industries should be explored by the Board of Economic Development which they have proposed. In view of the evidence of the Director of Industries, the Bihar and Orissa Committee have recommended that the Industries Department might share with banks and approved *shroffs* the task of examining proposals for the provision of credit to industries, as well as the risk of loss after credit has been provided, and that the banks and shroffs might receive a commission for this assistance including the sharing of risks.

418. The State Aid to Industries Act deals with two forms of assistance to industries, *viz.*, provision of banking and credit facilities and grant of other forms of State aid such as subsidies, grants

of land, etc. We, as a Banking Committee, are concerned only with the provision of the first form of assistance and from this point of view, we approve of the recommendations of the Provincial Committees referred to above for the enactment of provincial legislation on the lines of the Madras State Aid to Industries Act to provide credit facilities to new and nascent industries or industries newly introduced into an area or cottage industries. We further recommend that any Government assistance in regard to provision of capital under such legislation should be given through the Industrial Corporation, if and when one is established in any province on the lines suggested by us. We have been influenced in the latter recommendation by the evidence of the Director of Industries in Bihar and Orissa, referred to above.

DIFFERENCE OF OPINION WITHIN THE COMMITTEE.

419. In his dissenting minute our colleague, Mr. N. R. Sarker, has disagreed with some of our recommendations on the subject of the financing of industries. We find that the main points of difference between him and ourselves are as follows :—

(1) Mr. Sarker wants that we should *unconditionally* recommend the establishment of Provincial Industrial Corporations, at any rate in certain provinces, instead of making our recommendation in this respect dependent on the circumstances mentioned by us in paragraph 401, namely, if a provincial Government in the discharge of its responsibilities for the development of industries within its territories finds it necessary to ensure the supply of financial facilities to industrial concerns.

(2) While we should like to leave the details of the scheme of Provincial Corporations to be worked out by the provincial ministers, in consultation with the provincial legislatures concerned, Mr. Sarker would like us to lay down some broad rules for the guidance of these authorities, both in regard to the functions and business of the Corporation.

(3) Mr. Sarker does not agree with us in regard to the recommendation in paragraph 403 of our report in regard to the proportion of debenture capital to share capital.

We have given careful consideration to Mr. Sarker's arguments, but see no reason for modifying our conclusions.

CHAPTER XVII.

FINANCING OF FOREIGN TRADE.

GENERAL.

420. The total volume of the import and export trade of India has amounted in recent years to a large sum in the neighbourhood of Rs. 600 crores a year. The countries which participated in this trade to the extent of Rs. 10 crores or over in 1928-29 were :—

	Crores of rupees.
United Kingdom	183
United States of America	56
Japan	51
Germany	47
Netherlands and Dutch East Indies	30
France	22
Italy	22
Belgium	20
Ceylon	16
Straits Settlements	13
Australia	15

421. The financing of this foreign trade generally consists of two operations, *viz.* :—

(1) the financing from the Indian port to the foreign port or *vice versa*, and

(2) the financing from, or to, the Indian port to, or from, the up-country distributing or collecting centre.

422. With regard to item (1) in the previous paragraph the actual forms in which financial accommodation is given are described in paragraphs 427 and 429. The bulk of this business, which consists mainly of dealing in foreign bills of exchange or foreign remittances, is in the hands of non-Indian banks, popularly known as exchange banks. As stated in paragraph 42, the number of these banks is eighteen. Two of these, *viz.*, Messrs. Thomas Cook and Son (Bankers) and the American Express Company Incorporated, do not play an important part in connection with the financing of foreign trade as they deal mostly with tourist traffic. Of the rest, five have a considerable portion of their business in India, *viz.*, the Chartered Bank of India, Australia and China, the National Bank of India, the Mercantile Bank of India, the P. and O. Banking Corporation and the Eastern Bank.

The remaining eleven are branches or agencies of large banking corporations doing a major portion of their business abroad. Eight banks have their head offices in England; three in Japan; two in Holland; two in the United States of America; one in France; one in Portugal; and one in Hongkong. The various classes of business undertaken by these banks generally are given in paragraph 42.

423. There is no provision, statutory or otherwise, which lays an obligation on these exchange banks to furnish to any authority in India any figures relating to their business in India. For purposes of the Statistical Tables relating to Banks in India, a publication issued by the Director General of Commercial Intelligence, figures of Indian deposits and Indian cash balances are furnished by the exchange banks confidentially to the India Office, which consolidates these figures and supplies the consolidated figures for all banks to that officer. The following statement gives the figures so made available for a series of years :—

——	Number of banks.	Capital Reserve and Rest.	Deposits in India.	Cash balance in India.
		£ (1,000)	£ (1,000)	£ (1,000)
1913 (Pre-war year) .	12	37,825	23,276	4,411
1918	11	53,070	55,769	22,487
1920	15	90,217	56,105	18,881
1921	17	111,632	56,397	17,675
1922	18	112,221	55,038	12,132
1923	18	140,103	51,332	10,859
1924	18	130,464	52,976	12,275
1925	18	138,311	52,909	7,062
1926	18	148,003	53,658	8,046
1927	18	180,919	51,647	6,098
1928	18	187,923	53,354	6,042

N.B.—Deposits and Cash balances in India have been converted into sterling at the rate of 1*s*. 6*d*. a rupee.

424. There is no legal bar to an Indian joint-stock bank undertaking the first of the operations mentioned in paragraph 421. In the days of the East India Company this business was mostly in the hands of Agency houses referred to in paragraph 24 and of the

banks started in India under their ægis. One of the existing exchange banks, the National Bank of India, was actually established in India with a rupee capital, though soon after its establishment it converted its capital into sterling and transferred its headquarters to London so as to be at the centre of international finance, following in this respect the footsteps of some of the great merchant banking houses of the Continent in the eighteenth century. We also understand that some of the now defunct Indian joint-stock banks have at different times engaged largely in the business of foreign exchange. For example, the Alliance Bank of Simla, Limited, was known to have developed a large foreign exchange business before its collapse in 1923, operating in London firstly through correspondents like Parr's Bank and Boulton Brothers, and later on through a branch of its own. During its six years of independent existence, the Tata Industrial Bank, Limited, also engaged freely in foreign exchange. At the present moment, however, only two or three Indian joint-stock banks take an insignificant part in this business. We have made enquiries, and discussed with many of our witnesses, the reasons why the business has now become practically a monopoly of non-Indian banks. The four main reasons given are :

(*a*) the competition of well established non-Indian exchange banks with large capital and reserves;

(*b*) the absence of branches of Indian banks at London and other important foreign centres which precludes them from taking part in arbitrage and direct exchange transactions;

(*c*) the small profits now realized from the business; and

(*d*) the full employment of the resources of Indian banks in internal business of a more profitable character.

We may quote in this connection at length the views of a prominent Indian joint-stock banker :—

"The chief difficulties in the way of an Indian bank opening a branch in London for exchange business are as follows :—

(1) The bank must have a large capital, say over Rs. 2 crores, in order to command credit in the London discount market as well as with the exchange banks doing business in India.

(2) To open a branch in London and maintain it on sound and proper lines, the institution should be in a position to bear a loss of Rs. 5,000 or more every month for a period of at least three years on

account of working expenses and other unforeseen losses which might naturally result for want of practical experience. To expect the branch to be self-supporting within three years of its existence would be too optimistic a view to adopt considering the strong position of the exchange banks and the very narrow margin on which the branch must work to attract business.

(3) The branch must have a trained and reliable staff with some knowledge of international exchange.

(4) The floating resources of the bank should be large enough to permit a big turn-over.

(5) The political movement in India would affect the banking and trading facilities which an Indian bank could expect from British and foreign banks in London and at other places.

(6) The bank should have its head office in London rather than in India as its chances of securing import and export bills as well as bills for collection would then be greater and, being on the spot, the bank would be more conversant with the international monetary situation.

(7) The bank could hardly expect to receive in London local deposits or other business from the British public or merchants and manufacturers. Even banks like Chartered, National and Mercantile are not much patronised by the public in London, and are chiefly known to business firms trading with the East.

Some of the above difficulties are by nature such that they cannot be removed by Government interference or legislation. They could only be solved by mutual trust and good-will. But, besides the above difficulties, exchange banks in India, British and foreign, have been so well established and so well provided with funds through their Indian branches and the London discount market at relatively cheap rates that it would be extremely difficult for an institution outside their circle to compete with any measure of success, at least for a time after the starting of the exchange business. Government, however, could encourage approved Indian banks to establish branches in London by giving them a part of their exchange business, and by lending part of their surplus funds at cheap rates."

425. The Imperial Bank of India is prohibited by its charter from dealing in bills of exchange payable outside India, and is permitted to make remittances only for the *bona fide* personal requirements of its constituents.

426. The exchange banks have branches at several up-country places, details of which are given in paragraph 455. In the case of trade between these places and foreign countries, it is possible for a merchant to obtain financial facilities from an exchange bank to cover the second part of the operation mentioned in paragraph 421, as well as the first part by a single transaction. For example, in the case of goods imported to Delhi, the inward bill drawn by the foreign exporter is sent to the branch of the exchange bank in Delhi, and is collected in due course from the importer there and the proceeds remitted abroad. Similarly in the case of exports from, say, Amritsar, the Indian exporter can draw a bill on the foreign buyer under a credit opened by the buyer, and sell it direct to the branch of the exchange bank at Amritsar. We understand that Indian importers and exporters prefer the financing to be arranged by a single agency as this arrangement is found cheaper by them; and we would in this connection invite a reference to para. 106 of the report of the Punjab Banking Committee. In up-country places, however, where there are no branches of exchange banks the importers or exporters must make separate arrangements for the finance of the movement of their goods from or to the Indian ports through joint-stock banks or other agencies. The financing of the business in such cases falls definitely into the two operations mentioned in paragraph 421. In regard to the second of these operations, in the case of exports, the Imperial Bank of India, the Indian joint-stock banks and the indigenous bankers take part in the financing of the movement of the produce from the collecting centres to the ports; and the financial facilities given consist of purchasing demand drafts drawn by the exporter's agents on their principal's firm at the port. As regards imports, the movement of imported goods from the importing point to the distributing centres in India is generally financed by commission agents, *shroffs* and Indian joint-stock banks.

Mechanism of Finance.

Exports.

427. When an exporter sells to a foreign buyer, say in the United Kingdom, credits are usually opened with the London banks and finance houses and advised to India through the medium of the exchange banks. The bills against such credits are drawn principally at 3 months' sight, though longer usance paper is sometimes negotiated, and they are chiefly documentary. The bills

may be D. A. or D. P., the general practice being to draw D. A. bills. The rate for a 3 months' bill is higher than that for a demand bill to allow for interest during the usance of the bill, this rate being regulated by the rate of interest ruling at the centre on which the bill is drawn. These bills, whatever their usance, are sent to London and presented for acceptance, and after endorsement by the exchange banks in London are usually discounted in the open market. For purposes of rediscount of paper with the Bank of England, two British signatures on such paper are necessary. In this way the exchange banks receive back in sterling the equivalent of their rupee payments in India. At times it may suit the exchange banks to hold the purchased bills until maturity, *e.g.*, if the banks are well supplied with funds and there is no immediate prospect of the money being profitably employed, the bills will be held in portfolio until due date, but if trade is brisk or money is tight, the bills may be discounted, even at some sacrifice in the rate. Should the bills be sent for collection through exchange banks, the Indian exporter has to wait for the maturity of the bill before he gets the value in rupees. This practice is not common.

428. The bulk of the bills between India and Europe, America and the Colonies is in sterling. The drafts from and to Japan are in terms of yen while with China, they are in terms of rupees.

Imports.

429. As regards the import trade, the bulk of it from Western countries is financed as follows :—

(*a*) by 60 days sight D. P. drafts drawn on the Indian importer,

(*b*) by London Banks' acceptance of "house" paper. By this expression is meant a documentary bill drawn by, say, a London exporting house on the London office of a foreign bank which accepts the bill and returns it to the drawer who in turn discounts it in the London Money Market. The accepting bank forwards the relative documents to its branch abroad for collection of the proceeds of the goods from the exporting firms' foreign office and a remittance is sent to London at or before the maturity of the bill.

Both instruments are generally drawn in sterling. In the former case interest is payable, usually at 6 per cent, from the date of the bill to the approximate date of arrival of the proceeds of the bill in London. In the latter, the paper is discounted in the London Market at the prevailing discount rate, which is invariably lower than the rate of interest charged on 60 days sight D. P. drafts, and importers who have London houses of the standing to arrange for acceptance of their paper benefit

thereby. As, however, 60 days' sight D. P. sterling drafts are generally used in connection with imports by Indians, it will be seen that in both exports and imports by Indians the adjustment of interest between producer and consumer is effected in India and interest has to be taken into consideration at this end in fixing prices in both cases. Imports of sugar from eastern countries are financed by bills in sterling, but a fair amount of business is done with Java in guilders.

Rupee import bills.

430. It will be noticed that the bulk of both exports and imports is financed by means of sterling bills. In the case of exports, it is fairly clear that so long as credits can be opened in London, it must be to the advantage of the Indian trader to be able to draw bills on London, and have access thereby to the discount facilities of the biggest international market in the world. In the case of imports, however, a comparatively small amount of the trade is financed by bills which get the benefit of the London discount market. The question, therefore, arises whether from India's point of view, it would not be advantageous to introduce rupee bills in connection with the import trade of India. The representatives of the exchange banks did not see any material difference between the sterling and rupee bills from their own point of view; though from the point of view of promoting a bill-market in India, they agreed that rupee bills might be useful, their adoption being a matter between buyer and seller. In fact in the import trade rupee bills are already in existence in some cases. They pointed out that the bulk of the import bills coming out are for relatively small amounts and that so far as those bills at any rate are concerned, the chances of creating a discount market are not very great. If the Indian importer insisted that the foreign exporter should draw on him in rupees the exchange banks, they said, would certainly have no objection. It was pointed out by some witnesses that manufacturers were now very keen on disposing of their products and that it should be a good opportunity for Indian importers to take advantage of the present keen competition among sellers to get them to accept the proposed change in the system in so far as imports are concerned.

In their memorandum on the Money Market, the foreign experts have stated as follows in regard to this question :—

> "At the present stage we consider the improvement of the inland bill and money market as the fundamental and primary problem. This problem must be solved before progress to an appreciable extent can be

> expected in the use of rupee bills for settling foreign transactions. The question as to what currency the bill will be drawn in, forms part of the conditions which have to be agreed upon by buyers and sellers. It needs no comment that they will try to find the cheapest solution. Under normal circumstances the currency of that country will be preferred where the lowest rate of interest prevails and the money and bill market is so well developed that no doubt can exist about discount facilities being available at any time during the currency of the bill. These conditions are lacking in India. As long as this is the case, trade and industry will be hampered and the cost of imported goods raised by enforcing sellers of foreign goods to draw rupee bills."

This opinion assumes that the import trade of India is financed in the cheapest way with the help of the London money and bill market. The assumption is open to criticism. As pointed out in a previous paragraph, the bulk of the Indian import trade is financed by 60 days' sight D. P. drafts drawn on the Indian importer, and the latter has to pay interest, usually at 6 per cent. from the date of the bill to the approximate date of the arrival of the proceeds of the bill in London. This rate is raised when the Bank of England rate goes above 5 per cent. and for the greater part of the year 1929 was 7 per cent., having been as high as 7½ per cent. from the middle of October till the end of November, during which period the Bank of England Rate was 6½ per cent. The rate of interest payable by the Indian importer in respect of the import bills which are now being drawn in sterling currency is thus not based on the open market rate of discount in London. So long as this state of things continues, we think that for the import business of India, which on private account amounts approximately to Rs. 230 crores a year, the natural bill market is in India and not outside India. We agree with the suggestion of the foreign experts that the exchange banks should consider the possibility of changing their present custom to the extent that they should be prepared to accept the bills, instead of purchasing them, in the same way as house paper of a London export house is now accepted by them and the bills could then be discounted in the London market as described in paragraph 429 (*b*). If this suggestion could be followed, and the benefit of the cheap funds in the London discount market is passed on to the Indian importer, then we agree that any artificial measures for the introduction of rupee bills would be of doubtful advantage to India. We commend this suggestion to the exchange banks for their careful consideration, and we hope that it will be possible for them to get over the difficulty that the majority of Indian import bills

are for small amounts. We also hope that when the Reserve Bank is established and the average interest rate in India is brought down by effective measures on the part of the banks to deal with the seasonal stringency in the money market, the Indian money and discount market will compare favourably with that at centres outside India, and that trade will have recourse to both kinds of bills, rupee bills and bills in foreign currencies, according to its convenience. If in the meantime importers in India find it convenient to have the foreign exporter draw on them in rupee bills, we trust that, in view of the fact that the representatives of the exchange banks have already stated that the banks would have no objection to the introduction of rupee bills for import business, the exchange banks would also co-operate and encourage any efforts in this direction, with a view to developing a bill-market in India.

Acceptance credit.

431. In America, the arrangement for financing the export trade used to be somewhat similar to that obtaining in India, but after the establishment of the Federal Reserve Banks the use of the dollar acceptance is said to have been developed and the simplicity of the system to have promoted the foreign export trade of America. Sir Basil Blackett, in his memorandum submitted to the Committee, has explained how in the face of world competition India cannot afford to overlook any improved method of handling her annual production of agriculture and other commodities, and has suggested in this connection the development of the practice of drawing rupee bills both in regard to exports and imports and the use of the rupee acceptance credit in connection therewith. The question of creating rupee bills in regard to imports has been dealt with in the previous paragraph. As regards exports, Sir Basil Blackett is of opinion that the system of bank acceptance credit can be made to serve in providing the finance of India's export commodities which require extensive accommodation during the entire season, pending such actual time as shipments are made and sterling or other foreign currency sold to the exchange banks. At present, the finance obtained by the merchant is by means of a cash credit at a high average rate of interest with the added condition in some cases that interest will be charged on at least half the maximum amount of the loan, whether fully availed of or not. Sir Basil Blackett has pointed out that the inelasticity of this system must be felt as a hardship by the exporting community and that it would be to the advantage of that community if in place of this cash credit system the system of acceptance credit were introduced, under which the exporter could arrange with a bank in India for an acceptance credit to be established in his favour. This would enable the exporter to draw on the bank for the amount of the

acceptance and would make it possible for him during the life of these drafts to send the goods forward, drawing an export draft on his customer and offer it for sale to his banker in liquidation of the obligation at the maturity of the rupee draft to which the banker has given his acceptance under the credit. As a result of this arrangement, Sir Basil expects that the financial burden placed at present on the exporter during the period his merchandise is stored and is awaiting an opportunity for shipment abroad, would be considerably lightened and that the present restrictions on the volume of his business would be reduced. We are told that in inland banking in India the acceptance credit is in use only to a limited extent and the reasons for this are stated to be the following :—

(*a*) the practical non-existence of documents of title such as warehouse warrants and railway receipts in suitable form,

(*b*) the efficiency of the cash credit system which is much greater than would appear from Sir Basil Blackett's memorandum,

(*c*) the high stamp duty on bills, and

(*d*) the difficulty of introducing a form of bill which would be accepted throughout India.

If the difficulties in (*a*), (*c*) and (*d*) could be overcome and a true banker's bank was brought into existence along with an organization of merchant bankers and acceptance houses, we think that it would be possible to establish a wider use of the system of acceptance credit.

432. In paragraph 421 we have mentioned that the financing of the import and export trade might be considered under two main operations. In paragraph 426 we have briefly indicated the part played by the exchange banks in regard to the second of these operations, and we have dealt at some length with the mechanism of the first operation in paragraphs 427 and 429. As a good deal of discussion has centred round the former operation, it may be convenient to deal with it further in somewhat greater detail.

433. As regards the export trade, the movement of the produce from the village to the *mandi*, as already described in chapter XIII, is financed by *zemindars*, moneylenders, indigenous banks and bankers and co-operative societies. The Imperial Bank of India and the Indian joint-stock banks also help in financing in villages as they lend money in *mandis* against pledge of stocks in the godowns of commission agents and exporting houses, the commission agents and exporting houses in turn lending to village producers against the latters' contracts to deliver produce at subsequent dates. The exchange banks have no direct part in the movement of produce at this stage, but when

the produce is moved from the *mandi* to the exporting ports, the exchange banks along with the Imperial Bank of India and the Indian joint-stock banks take a part in the financing of the movement. The indigenous banks and some of the exchange banks make advances against produce in godowns, but the exchange banks usually limit their accommodation to such firms as do export business. In *mandis* the exporters usually take delivery of the produce through a *shroff* (guarantee broker) who finances the payments and receives a commission of $\frac{1}{4}$ to $\frac{1}{2}$ per cent for the transaction. The *shroff* is paid for the price of the commodity by means of demand drafts drawn on the exporter's firm at the port and signed by the firm's representative at the larger centres. These drafts as already stated are purchased by the Imperial Bank of India, the indigenous banks and the exchange banks, and the *shroff* thus receives funds to finance further transactions.

434. Turning to the import trade, we have mentioned that the movement of imported goods from the importing centres to the distributing centres in India is generally financed by commission agents, *shroffs* and Indian joint-stock banks. At inland importing centres like Amritsar, Cawnpore and Delhi the import bills are mostly D. P. and are paid on or before due date by the importers, who in case of need may obtain facilities for payment of the bills by means of loans granted by the exchange or joint-stock banks. The loans are given against a margin of 20 per cent of the value of the goods *plus* all import charges, and usually carry interest at about the Imperial Bank rate.

After taking delivery of the goods, the importers sell them to dealers either for cash or on credit from 2 to 4 months with interest at 6 per cent or more per annum. The wholesale dealers in the larger distributing centres similarly deal with the retail dealers in the villages by selling to them either for cash or on credit. In the latter transactions, commission agents play an important part; they buy for the larger village dealers who in turn sell to the smaller village dealers who sell to the ryots against their promise to pay when the crops are sold. The rates charged by the commission agents for this finance vary from 6 to 9 per cent.

435. We have stated in paragraph 42 that the exchange banks also finance imports of bullion, both gold and silver. It may not be out of place here to describe the method of financing followed by these banks. Most of the bullion is imported into Bombay by the dealers, the majority of whom are members of the Bombay Bullion Exchange, Limited. These dealers send orders for their requirements either direct or through exchange banks or brokers. The orders are placed generally in London, although, in the case of silver, orders are

sent to New York direct to a certain extent. As soon as an advice is received from London or New York of the purchase of bullion, a remittance is arranged through an exchange bank and a contract for the purchase of bullion T. T. is made and both the exchange bank and the dealer abide by its terms. The contract is made with the exchange bank by the dealer through certified brokers. The bank in Bombay is given written instructions by the dealer whom and when to pay in London or New York, as the case may be, against complete shipping documents; and it instructs its office or agents to make the necessary payment. On arrival of the bullion in Bombay, the bank clears the consignment and stores it in its strong rooms and the dealer has to arrange to take delivery within seven days. Interest at the Bank of England rate, subject to a minimum of 4 per cent. per annum, has to be paid by the dealer to the bank from the date of payment in London or New York to the date of payment in Bombay. Loans against bullion are given both by the joint-stock banks and exchange banks. The rates charged approximate to the ruling rates for call funds in the market. The banks require a margin of 5 per cent in the case of gold and about Rs. 5 per 100 tolas in the case of silver, though the margin in the case of silver varies according to the market conditions and movement in prices.

Existing Facilities.

436. We have been informed by the representatives of the Exchange Banks' Association that merchants are at present able to obtain from the exchange banks all the assistance they require to finance their import and export trade, provided they are of good reputation and possess means in reasonable proportion to the trade that they do. They have added that it is only in cases where banks are unable to ascertain even approximately the financial status of a merchant that the latter finds difficulty in securing the accommodation he may need for his business. In their view, no solvent business-man should experience any difficulty, provided he furnished the necessary information in the form of a balance-sheet. They have therefore suggested that all merchants in their own interests should adopt the business-like practice of having their books regularly audited by a recognized accountant and a balance sheet in correct form drawn up from time to time. According to them, the European firms invariably have their balance-sheets audited by a Chartered Accountant, but it is exceptional among Indians to have their balance-sheets similarly prepared and audited. This opinion is generally endorsed by the European Chambers of Commerce.

437. The Indian Chambers of Commerce and several Indian witnesses consider that the financing of the foreign trade of India

is from the Indian point of view in a most unsatisfactory condition. The main reasons for this contrary view held by the Indian witnesses have been stated to be as follows :—

(*a*) The share of Indians in the foreign trade of India is, according to the Indian Chamber of Commerce, Calcutta,* less than 15 per cent of the total. This, they allege, involves the loss to India of a large amount in the shape of commission, brokerage, and insurance, paid to non-Indians. It is believed that this preponderance of the non-Indian element in the foreign trade of India is due to the large facilities given by the non-Indian exchange banks to their nationals operating in India.

(*b*) At present in financing the external trade of India, the exchange banks have almost a monopoly. There are only two or three Indian joint-stock banks who do a little of this business, but almost the whole of it is really in the hands of non-Indian banks. The Imperial Bank of India is prevented from engaging in this business by the provisions of the Act governing its operations. The resources of the other Indian joint-stock banks (with the exception of a few) are not sufficient to enable them to engage in the business. Even with sufficient resources, it has been found difficult to compete with the well established non-Indian banks.

The Exchange Banks' Association have furnished a statement* regarding the participation of Indians and non-Indians in the country's foreign trade which shows that the Indians have a larger share than 15 per cent., and that the share of Indians in this trade has been gradually increasing. This statement, however, has been criticised on the grounds that (i) it does not give the actual figures for India but only percentages for the individual centres, and (ii) it ignores that portion of the import trade which is handled by the non-Indian who arranges for the documents to be made out in the name of the final buyers who are Indians. Further it is stated that if we take into account the figures of foreign trade handled without bank intervention and which is almost wholly in the hands of non-Indians, it will be found that the total participation of Indians is much lower than shown by the figures given in the statement. It has not been possible for us to verify the figures given by the Indian Chamber of Commerce or by the Exchange Banks' Association.

438. In addition to these two general complaints, which are not strictly relevant to the problem of banking facilities, various

* Appendix III of the Volume of Written Evidence.

other difficulties which arise from the existing arrangements have been brought to the notice of the Committee by Indian witnesses. These are mentioned in the succeeding paragraphs, together with the observations made by the representatives of the exchange banks in regard to them.

439. One difficulty is that Indian merchants who import from abroad cannot do so on D. A. terms and can do business only on D. P. terms. It is said that in order to encourage the import of Manchester piece-goods, facilities have recently been offered to merchants engaged in that trade, but in the case of other commodities such facilities are not freely available. The representatives of the exchange banks have referred in the first place to the practice followed by the exchange banks of releasing imported goods on trust receipts, which in their opinion, more or less, takes the place of the system of drawing bills on D. A. terms. Secondly, they have pointed out that D. A. terms are mostly arranged between the exporter abroad and the importer in this country, and the reason for the present practice of drawing invariably on D. P terms is probably that importers are mostly people with limited means. It has been contended by the exchange banks that they have no power to grant D. A. terms without instructions from the exporter abroad. The lack of such D. A. facilities has in some cases been attributed to the bank references given by the exchange banks, but the representatives of the latter have pointed out that bank references are not the sole basis of guidance to the exporter abroad who also tries to get into touch with the importer in India through a travelling agent, and unless he is thoroughly satisfied, he does not allow D. A. terms. The representatives have repudiated the suggestion that the exchange banks have been discouraging D. A. facilities with a view to encouraging loan business on trust receipts in order to earn a higher rate of interest, and they have also denied the other suggestion that the present position is due to the fact that the exchange banks are all non-Indian and that if there were Indian exchange banks, the import bills would all be drawn D. A. instead of D. P.

440. Another grievance brought to our notice by some of the Indian witnesses is that in order to get a confirmed letter of credit opened, even first class Indian importing firms are required to make a deposit of 10 to 15 per cent. of the value of goods with the exchange banks, while European houses in Calcutta are not required to make such deposits. The representatives of the exchange banks have pointed out that at least 9/10ths of the import business is done without credits at all and that the question of deposits in other cases really depends upon the standing and the position of the merchant and also to some extent on the nature of the commodity imported. They have added that it is not a universal custom to call for deposits and that in the case of well-established

firms deposits should not be called for. They have stated that there is absolutely no discrimination between Europeans and Indians and the same rules and same standards are applied to both classes of customers.

441. There have also been complaints in regard to the bank references given by the exchange banks. It has been pointed out by one Indian Chamber of Commerce that in the case of some Indian firms satisfactory references were not supplied by the exchange banks to overseas merchants, though in the case of foreign merchants whose resources were considerably lower than those of some of the Indian firms, the banks of foreign countries supplied very good bank references. The exchange banks' representatives have said that banks always give the best report they can, based upon their knowledge of the resources of the clients. They have observed that in the case of European clients the managers of banks have more intimate knowledge of their integrity and resources, but in the case of Indian clients through their *shroffs* and other members of the staff, they make an honest endeavour to get at a correct idea of their financial standing.

442. Another complaint made by some of the Indian witnesses is that the Indian merchants have no opportunity of knowing under what rules the members of the Exchange Banks' Association work and the alterations made therein from time to time. The action of the exchange banks in discontinuing the system of partial deliveries has been mentioned and it has been complained that the decision of the exchange banks was arrived at without any previous notice of the change to the merchants. The representatives of the exchange banks have assured us that the Association had no idea of keeping their rules of business secret and that, in fact, in Calcutta, in view of certain requests that had been made for a copy of the rules of business, the rules were actually published in 1926. Alterations in these rules are not made frequently and though the Association did not send the alterations to the customers direct, they had been made available to them through the exchange brokers. The representatives were quite willing to make arrangements for the supply of copies of the rules to merchants and we have since been informed that copies of the rules are now freely available to constituents on application. As regards the case of partial deliveries, we have been told that the system was a purely temporary phase rendered necessary during the period of slump in 1921, and that as soon as the stocks had been cleared, the system was automatically discontinued. We have suggested to the representatives that before making any alterations in the rules of procedure, it might be useful to Indian as well as European merchants if the Association consulted the Chambers of Commerce and other representatives of merchants. We have been informed that if the changes are such that Chambers of Commerce and merchants

would be seriously interested in them, the Association would be happy to consult them before amending the rules. We can conceive of changes in the rules which the Association may consider unimportant, but which may not be regarded in the same light by the merchants and we would therefore impress on the Association the advisability of consulting commercial bodies in all cases.

443. At present the exchange banks charge a penalty for the late completion of exchange contracts. It has been represented to us that this penalty is rather high and is capable of reduction. The representatives have explained that a bank has always to act up to its contract and that this penalty is intended only to make the merchant also act up to his part of the contract. Under the present system, the merchant has a whole month before him to decide whether he can fulfil the contract or not, and the present penalty, if it should be a deterrent, cannot be much reduced. They have, however, agreed that there is no reason for a difference in the penalty rates charged in Calcutta and Bombay, which are 1/32*d.* per week (equal roughly to 9 per cent interest per annum) and 1 per cent over Bank rate respectively. They have also admitted that it is a matter for consideration whether the rates cannot be levelled down. We understand that the penalty in Calcutta has since been changed to the same basis as in Bombay.

444. When a foreign exporter draws a draft on an Indian importer and the draft is held by an exchange bank in India for collection, the Indian importer has to pay the bank in rupees at the bank's selling rate for demand drafts and he is not allowed to pay it either by the demand drafts of another exchange bank, which may be had at more favourable rates except on payment of a commission of ¼ per cent or by his own cheque on his London agent. So far as Calcutta was concerned, an importer could pay for the draft by the T. T. of another exchange bank (being a member of the Exchange Banks' Association) without any charge and the representatives of the exchange banks have agreed that an exchange bank is not justified in refusing the importer's own cheque on his agent in London where funds are known to be available. They have expressed the view that if the question is put before the Exchange Banks' Association, it would be considered. As regards the method of payment by demand drafts of other banks, we understand that it is not the practice of exchange banks to accept them, as by this method of payment the bank which gets the bill for collection would not receive anything for all the trouble in the business undertaken by it. We do not see any reason why the practice in Calcutta regarding payment by T. T. should not be followed at other centres or why an importer with available funds in London should be forced unnecessarily to incur the double expense of transferring them to India and back. Although we understand that cases of this sort are of rare occurrence, we trust the Association will take steps to remove this grievance at an early date.

445. Another complaint prominently put forward by the representatives of the Indian Merchants Chamber, Bombay, relates to the attitude of the exchange banks in regard to Indian insurance companies. It has been stated that these banks are literally forcing Indian exporters to insure their goods with foreign insurance companies. A concrete case was quoted where one of the leading firms in Bombay which used to insure its exports with an Indian insurance company was told by one exchange bank that a limit of Rs. 4 lakhs would be placed as a maximum amount which could be insured with that company. It was added that there were several such instances where Indian firms were not permitted to insure their goods with Indian companies. As a result of this attitude on the part of the exchange banks, it is alleged that every year India is making payments abroad in the form of insurance premia to the extent of nearly Rs. 2 to Rs. 3 crores, which should properly go into the pockets of Indian insurance companies.

A similar prejudice against Indian insurance companies formerly existed on the part of the Imperial Bank of India, but they now accept without limit policies of certain Indian insurance companies which have agreed to allow the bank to have access to their books at any time in order to satisfy the bank that the company is reinsuring part of its risks, and to supply all other information required.

The representatives of the Exchange Banks' Association have explained that the question of insurance has always been a very difficult one with the banks, that there is no prejudice whatever against Indian insurance companies as such and that it is really a question of the standing of the insurance companies. As an illustration of their sympathetic attitude, they quoted one instance where in the terms of an old letter of credit it had been stated that insurance with a particular non-Indian company should be made, and where the exchange bank which was dealing with this letter of credit had the terms modified so that the insurance could be made with an Indian company about whose standing the bank was quite satisfied.

It was suggested to the representatives that the Exchange Banks' Association should lay down standards to which the insurance companies should conform for obtaining the confidence of the exchange banks and that the Exchange Banks' Association should thereafter publish a list of Indian and non-Indian insurance companies which conformed to those standards and whose policies should be accepted by all the exchange banks without limit. The representatives were not in a position to say whether this could be done, because the question was in their opinion really one for each bank to decide for itself, but they said that if the suggestion was put before the exchange banks, it would receive every consideration. We have been informed, since this question was first raised, that

with the approval of the London Exchange Banks' Association every support is now being given to Indian insurance companies. In view of the rapid growth of Indian insurance companies during the past ten years, and the fact that no bank has ever incurred a loss on an Indian Insurance policy, we trust that the establishment of more cordial relations between the exchange banks and Indian insurance companies may be speedily effected. With this end in view we suggest that some understanding might be arrived at by the exchange banks in consultation with representatives of the Indian Insurance Companies similar to that between the Imperial Bank of India and these institutions.

446. At present when a draft on an Indian importer comes through an exchange bank, he merely gets an informal note advising him that the draft has come and he has himself to go to the bank and examine the documents. The custom in England and other western countries is to send such documents to the drawee at his office for acceptance. We have been told by the representatives of the exchange banks that it is impracticable to send out drafts for acceptance as in England owing to the difference in ruling conditions. In England, people are quite alive to such things and every firm has got a responsible clerk who attends to them readily. In India when bills are sent round with documents attached for acceptance, it is often found that the party is available only after five or six visits. This may be true in regard to petty Indian merchants and dealers. We doubt, however, whether it applies to big Indian merchants, for example, those in Clive Street, Calcutta, or in the Fort, Bombay. The representatives have agreed that there would be no objection to send out the bills to such people at their respective business places. As regards the allegation that some European firms had this facility while no Indian firm had it, it has been explained to us that this might be due to the European firms having asked for the privilege and the others not having asked for it. The Exchange Banks' representatives have assured the Committee that here too there is no question of discrimination. We are sure that the Association fully realizes the fact that anything which disturbs the smooth working of the banking mechanism injures both the mechanism and those who deal with it and we sincerely trust that no effort will be wanting on their part to remove all causes of misunderstanding and dissatisfaction in the minds of the Indian mercantile community.

Suggestions made by witnesses for the Regulation of the operations of Exchange Banks.

(i) *Licensing of Foreign Banks.*

447. It has been suggested that foreign banks operating in India, that is those which are not registered under the Indian law,

should be required to take out licences for carrying on their business in India. At present they are not subject to any legal restrictions in India. They are exempt from all the statutory obligations to which Indian joint-stock banks are subject. They do not even publish their balance-sheets giving the information about their Indian business separately from their other business. They draw a large part of their working capital from Indian deposits; nevertheless the depositors are not protected by any regulations governing the operations of such banks in India. Some control over the foreign banks is also recommended on broad national grounds. For example, it is argued that it may be necessary to restrict the operations of any bank which worked against Indian interests by, say, refusing to accept policies of Indian insurance companies, even though they were sound; deliberately placing difficulties in the way of Indian traders, which were not justified; and by imposing unjustifiable handicaps against their Indian customers. One British Chamber of Commerce has suggested that India is now over-banked, so far as facilities for financing of foreign trade at the ports are concerned, and that power should be given to some authority in India to stop the opening of further exchange banks.

448. Various authorities have been named for issuing, renewing, or cancelling licences, namely :—

(1) The Finance Department of the Government of India,

(2) The Standing Finance Committee,

(3) The Reserve Bank Board, and

(4) The Bankers' Association in India.

449 The representatives of the Exchange Banks' Association feel that the British banks which have had a long history of service to India should not be penalized in the same way as other foreign banks, but they have no objection on principle to a system of licence if it is required from every bank in the country, whether Indian or foreign. They have, however, added that licences should be freely granted to all the existing banks and should also be similarly renewed provided they complied with any provisions of the Indian law relating to such banks. They contemplate that one of the conditions of the licence would be the submission of periodical statements relating to the Indian affairs of these banks, and that they might be required under any future Reserve Bank Act to place certain percentages of their time and demand liabilities to the public in India as interest-free balances with the Reserve Bank. If as a result of our recommendations, it is proposed to have an independent audit of all banks operating in India, the representatives of the exchange banks have stated that these banks would have no objection to such audit. Similarly, they have agreed to abide by whatever might be prescribed for banks as a whole in India.

450. Other conditions in the licence suggested by witnesses are :—

(*a*) No foreign bank having a capital and reserve of less than £1 million should be given a licence.

(*b*) Foreign banks should not borrow in India more than 25 per cent of their paid-up capital and reserve, and in no case should the borrowing by a foreign bank exceed its total advances in India.

(*c*) Foreign banks should accept policies of approved Indian insurance companies.

(*d*) In the event of liquidation or failure, the assets of the Indian offices of the foreign bank should be earmarked for the satisfaction of Indian creditors, and this prior charge of the assets of the Indian branches should not be deemed to prejudice the claim of Indian creditors on the general assets of the bank in case Indian assets were insufficient to meet the claims in full.

(*e*) Foreign banks should give an undertaking to train and employ a definite percentage of Indians in their higher grades.

451. From a study of the literature relating to the treatment of non-national banks in other countries as far as available, we find that provision exists in the laws of various countries for regulating foreign banks by means of licences granted by some prescribed authority in the country. To quote only one instance, foreign banks in Japan established in accordance with foreign laws have to apply to the Finance Minister for permission to carry on banking business within Japan and the Minister is authorized to impose specific restrictions on the issue of licences. This latter provision has the purpose of giving to the applying foreign institution treatment equal to that which a Japanese institution enjoys in the country of the foreign bank. The introduction of a similar system is, in our opinion, necessary in India partly in the interests of depositors, partly for ensuring the grant of reciprocal treatment in foreign countries to Indian banks and partly for giving the Reserve Bank some control over the banks operating in the country. We cannot think of a better authority than the Reserve Bank for undertaking this task of scrutinizing applications from non-Indian banks to do banking business in India, and for granting licences in approved cases. We, therefore, recommend that all non-Indian banks wishing to do banking business in India should be required to take out a licence from the Reserve Bank when it is established. We further recommend that in fairness to the banks already established in this country, licences should be freely granted to them. Every licence should be in force for a stated period and should be automatically renewed if the licencing authority is satisfied that the

provisions of Indian law applicable to the bank and other conditions specified in the licence, are complied with. These conditions should be the following :—

(*i*) In addition to periodic statements provided for in the Reserve Bank Bill of 1928, the non-Indian banks should furnish to the Reserve Bank annual statements showing their assets and liabilities relating to their Indian business as prescribed by the Reserve Bank from time to time.

(*ii*) For a few years to come, at any rate, the banks should submit to some prescribed authority in India, preferably the Reserve Bank, periodic reports of Indian and non-Indian business handled by them.

(*iii*) Other conditions might be imposed on the basis of reciprocity. For example, even the Bank of England has laid down that no financial accommodation would be granted by that Bank on the security of bills unless the bills bore two English names of which one should be the acceptor. There are various restrictions imposed by the laws of foreign countries on non-national banks working there.* The power to impose similar conditions in the licences that would be granted by the Reserve Bank would enable the Government of India to accord reciprocal treatment to non-Indian banks.

We do not approve of any other conditions in the licences as suggested by witnesses and referred to in paragraph 450. The suggestions contained in conditions (*b*) to (*e*) of that paragraph require special treatment and have been dealt with by us separately. As regards condition (*a*), we prefer not to fetter the discretion of the Reserve Bank by any hard and fast rule regarding the capital and the reserve which a non-Indian bank should have before it commences operation in India.

(*ii*) *Restrictions on Receipt of Deposits.*

452. As regards restrictions on the power to receive deposits in India, various suggestions have been made. No case of a non-Indian bank going into liquidation with resultant loss to the Indian depositors has been brought to our notice, but the necessity for some protection against a future contingency has been emphasized. Some have suggested that foreign banks should bring 50 per cent of their working capital from abroad. Others think that such restrictions are too drastic, and that foreign banks should be allowed to receive deposits to the extent of the trade in Indian hands which they finance. Others again do not want to prevent the foreign banks receiving deposits, but at the same time have recommended that as these banks are able to secure deposits in India at cheaper rates than Indian banks, they should be required to pay a special tax of ½ per cent on all fixed deposits received in

* Appendix II of the Volume of Written Evidence.

India. It has also been suggested by some witnesses that foreign banks should be allowed to receive Indian deposits only if they subjected themselves to the control arising out of registration under the Indian law with rupee capital and Indian directorates. On the other hand, there were some witnesses who were against placing any restrictions, as they were of opinion that individual liberty should be conceded to depositors to place their money in any bank, foreign or indigenous.

453. It was stated by Mr. R. W. Beaumont-Pease, Chairman of Lloyds Bank, in his speech at a recent annual general meeting that "the total of deposits received in India (by that bank) largely exceeds the amount of the bank's advances and no portion of the bank's deposits at home is used for the purpose of making loans in India". This statement has led to an enquiry in Indian circles whether the banking resources of India are being administered to the best advantage of her own nationals and for the furtherance of Indian trade, commerce and industry. One prominent Indian banker in his evidence before us said that the exchange banks do not at present employ in India all the money they receive on deposit in India, and a portion of this surplus money taken from the public in India is invested in business outside India. He therefore suggested that restrictions should be placed on the receipt of deposits by the exchange banks in India in order to prevent such export of funds from India. On the other hand, it has been pointed out that there are seasons in the year in India when the exchange banks are borrowing money from other countries, in order to finance the foreign trade of India, and that during the slack season this money that is brought out from abroad is remitted back.

454. The Managing Governor of the Imperial Bank of India was definitely asked the question whether he would favour the employment of Indian deposits with exchange banks in investments, say, in the Federated Malay States or in Japan. He replied that he was strongly against any interference with the free flow in bankers' funds between different countries. He thought interference with economic forces must in this, as in other instances, react in ways which largely defeat the purpose aimed at and cause hardship to third parties. In his view, the interests of depositors as well as those of borrowers must be considered. If banks could not find sufficient investments of a suitable character in India for the potential deposit money, they must reduce deposit rates or invest money elsewhere. In his opinion India had probably benefited more than most countries by the use of foreign capital and, if freedom in the movement of capital was interfered with, foreign capital would not be so readily available.

455. It has been suggested by some of our Indian witnesses that the exchange banks with cheaper money received from Indians

themselves offer unfair competition to Indian joint-stock banks. At present the Indian joint-stock banks have to pay higher rates of interest than the exchange banks for deposits taken from the public, and the complaint is that the exchange banks through the facilities of cheaper money available to them quote lower competitive lending rates to the detriment of the Indian joint-stock banks. It is observed that the lowering of the lending rate by exchange banks, though it is immediately beneficial to the public at large and to the trade of the country, is at the cost of the indigenous banks, and that as the interests of the general public in the long run coincide with the interests of the Indian joint-stock banks, the exchange banks should be denied all avenues of cheap money in India. The point in this suggestion relates more to the competition of exchange banks in the field of financing internal trade than foreign trade. As regards internal trade, the exchange banks contend that there is not much competition between them and Indian joint-stock banks. It is true that a few of them have branches at some of the larger inland centres, but it is stated that these branches concentrate chiefly on import bills though advances are also granted against goods intended for export. They do not operate in the districts or smaller centres, nor do they compete in storage business in respect of agricultural produce in the mofussil. The number of such up-country branches of exchange banks is also not large as shown by the statement below :—

Statement showing the location of branches of exchange banks and the dates of their opening.

Cawnpore	Chartered	opened 1920.
	National	,, 1889.
Delhi	Chartered	,, 1912.
	National	,, 1895.
	Mercantile	,, 1912.
	Lloyds	,, 1912.*
Amritsar	Chartered	,, 1910.
	National	,, 1900.
	Lloyds	,, 1930.
Lahore	National	,, 1900.
	Lloyds	,, 1928.
Simla	Mercantile	,, 1923.
	Lloyds	,, 1910.*
Rawalpindi	Lloyds	,, 1906.
Peshawar	Chartered	,, 1926. (Closed 1930.)
Srinagar	Lloyds	,, 1918†
Murree	Lloyds	,, 1907.*
Gulmarg	Lloyds	,, 1909.
New Delhi	Lloyds	,, 1927.

456. Although the number of up-country branches of exchange banks is not large, it has been brought to our notice that in recent years there has been a movement among the exchange banks to get a footing in the interior of India through the acquisition of shares in other banks. For example, the P. & O. Banking Corporation, soon after its flotation in 1920, purchased the Allahabad

* King, King and Co. amalgamated with Lloyds Bank, February 1923.
† Cox and Co. Ditto.

Bank, which is an Indian joint-stock bank with about forty branches and sub-agencies in the interior of India. Lord Inchcape commenting upon this acquisition said that "Our purchase of the Allahabad Bank gives us a footing in the interior of India which it would have taken years to work up". The controlling interest in the P. & O. Banking Corporation itself was acquired in 1927 by the Chartered Bank of India, Australia and China, which purchased 196,059 out of 259,416 shares. Regarding this development, Mr. Baster in his book "The Imperial Banks" says :—"It means that one of the greatest exchange banks is directly interested in developing banking facilities in the interior of India, which, to all exchange banks is, in the main, unknown territory. Although English banks can never hope to serve the whole of India, a development of this kind cannot fail to have beneficial effects of vital importance in Indian economic development, if the other banks follow suit".

It has been suggested to us that the Chartered Bank should be made to divest itself of its interest in the Allahabad Bank through the P. & O. Banking Corporation by the latter selling its shares in the Allahabad Bank to the public, or by some other means, and that if the Chartered Bank is not willing to do so by persuasion, it should be compelled by legislation. We deal in Chapter XXV with the general question of regulating the acquisition of such controlling interests; but here we need only remind the advocates of the proposal that we are not writing on a clean slate, and we cannot conceive of any measure calculated to carry out the proposal which will not in essence be an act of expropriation. Moreover, we have grave doubts whether any such measure can be recommended in the interest of development of banking facilities in India.

457. A complaint has been made in this connection that the exchange banks at these inland centres encourage foreign traders to compete with Indian merchants in regard to the movement of the produce to the ports or of the imported goods from the ports to the interior. The European exporters and importers already have a large share of India's foreign trade and it has been pressed on us that the grant of this opportunity to them of further increasing their inland business must strongly be deprecated. As stated already, the representatives of the Exchange Banks' Association have observed that this complaint is not justified and that Indians are securing an increasing share in the direct import and export business. We understand that many of the inland branches of the exchange banks were definitely opened at the request of the Indian traders, who wanted to have a direct connection from the interior with the foreign importer and exporter.

458. The proposal to place restrictions on the receipt of deposits by the exchange banks has also been recommended from another

point of view. A large portion of the foreign trade of India is in the hands of non-Indians, and it is strongly felt that it is not in the interests of India that the savings of Indians should be utilized to help non-Indians to make a profit. It has, therefore, been suggested that exchange banks should be allowed to receive deposits in India only to the extent of the requirements for financing the foreign trade which is in the hands of Indians.

459. It is, of course, a fact that exchange banks do not compete with the Indian joint-stock banks in the matter of attracting deposits by offering better terms. But it has been contended that the Indian banks, being late-comers in the field, have found themselves arrayed against a number of foreign institutions, which had already gathered enormous influence and created valuable good-will, and which by virtue of these advantages and the greater reserves and resources acquired by them in the process of years, irresistably draw business to a much greater extent than the former. It has further been argued that as the exchange banks are now in a monopolistic position in regard to the supply of financial facilities for foreign trade, people who are engaged in that business have to open accounts with them, in order to show their stability and to get good facilities from those banks. Some portion of the deposits thus received by the exchange banks consists of current deposits which come to them on account of the monopolistic nature of their business, and the restrictions proposed on their power to receive deposits are intended to counteract this unfair advantage. One of the witnesses who referred to this maintenance of current accounts by people engaged in foreign trade for the sake of establishing their credit with these banks himself admitted that his firm, which had been dealing with the exchange banks for years, was not required to deposit a single pie with them for this purpose. As suggested by the exchange banks' representatives, the real position perhaps is that new customers of exchange banks who wish to open credits in connection with foreign trade are naturally required to make certain deposits with them and such initial deposits are only temporary until the banks get some knowledge of the working of these customers and come to have greater confidence in them based on this knowledge.

460. On the general question of placing restrictions on the receipt of deposits by the exchange banks, the views of the Managing Governor of the Imperial Bank of India are as follows :—

> "The result of placing restrictions would be that the exchange banks would have to transfer funds borrowed in other countries and/or borrow from the Imperial Bank of India to replace the Indian deposits which they now have to the extent required for their exchange business. Exchange operations would be

hampered considerably, and the higher cost of funds would possibly necessitate increased exchange margins. Inasmuch as foreign funds were brought in, the interest on them would leave the country. Their finance of internal trade would be allowed to decrease as they would not bring in foreign funds or borrow to any great extent for this purpose. The *shroffs*, merchants, etc., who are now financed by the exchange banks would have to go elsewhere for the major portion of their finance and the deposits formerly taken by the exchange banks would also be diverted to other banks. Owing to their very high financial standing and their very strong balance-sheets, the exchange banks are able to borrow their funds in India at low rates of interest and correspondingly low rates are charged to the *shroffs* and the merchants. The Indian depositors place their funds with the exchange banks and accept the relatively low rates offered as they are satisfied that their deposits are quite safe, and they would be unwilling to place them with banks on which they do not place so much reliance except at higher rates and not at all to a large extent. Probably the only non-exchange bank which could attract the bulk of their deposits is the Imperial Bank of India and the prohibition would give that bank a semi-monopoly. Inasmuch as funds were deposited with other banks at higher rates, the cost of finance to the *shroffs* and merchants would increase correspondingly and trade would suffer."

461. According to the same authority, the result of placing restrictions on the exchange banks receiving deposits in India would be that exchange banks would have to realize their considerable investments in India Government securities for the purpose of repaying their Indian deposits, thereby depressing the prices of the latter to the further detriment of the large holdings of the Indian joint-stock banks in these securities.

462. Further, although exchange banks have large deposits, the amount of free or cheap deposits is limited. During the busy season they have to compete for available deposits, and they are frequently able to offer rates which induce Indian banks to lend to them. This bears out the fact mentioned by one Indian banker that the deposits of the Indian banks are not affected by those of the exchange banks. The compulsory diversion of deposits, even partially, may therefore result in those same deposits coming back to the exchange banks through the Indian banks at an increased cost for use in foreign exchange operations, and the addi-

tional cost would be passed on to the Indian trader and ultimately to the Indian producer, so long as margins are kept at the narrowest limit by competition as at present. It has also to be remembered in this connection that deposits are a form of borrowing in India and that the Indian Government itself is continuously borrowing in the London Money Market large amounts for capital and general purposes.

463. We do not think that it is a correct interpretation of the speech of Mr. Beaumont-Pease that the Indian branches of exchange banks are not drawing on their Head Offices outside India but have more than enough funds from India itself. We are fairly sure that it is not true that the exchange banks on balance take money out of India for use elsewhere or that deposits received from Indians are utilised for financing non-Indians engaged in the foreign trade. We give below certain figures which we obtained from the exchange banks :—

Statement showing deposits, advances and investments at 31st December 1929 of the exchange banks in India.

All figures are in crores of rupees.

Deposits in India.

	Current accounts and money payable at call.	Fixed and short deposits.	Total.
Non-Indian	15	12	27
Indian	19	20	39
Total	34	32	66

Outstanding loans and overdrafts outside India . . 22

* Advances in India.	Loans, cash credits, overdrafts and local bills discounted (excluding bills of exchange).
Non-Indian	15
Indian	31
Total	46
Investments in Government and other Indian Trustee Securities and Indian Treasury Bills	26
Bills of Exchange in transit to London and elsewhere overseas	10

* Mr. Buckley informs us that these advances are in connection with the export and import trade.

It will be seen from the above statement that of the total deposits of 66 crores, 27 were from non-Indians and 39 from Indians. These deposits were in part utilized in advances which amounted to 15 crores to non-Indians and 31 crores to Indians. The balance of 20 crores, together with loans and over-drafts from outside India amounting to 22 crores were invested mainly in bills in transit amounting to 10 crores and in Government and other Indian securities, including treasury bills amounting to 26 crores.

464. We doubt whether the prevention of the exchange banks from receiving deposits from the Indian public would actually lead to the growth of indigenous joint-stock banking on sound lines. If the indigenous banks require to be protected against their foreign rivals, it is because at present they lack experience and reserves. Both these take time to acquire and the pace cannot easily or safely be forced. Nor is it at all certain that by blocking the channels which the public at present prefer, we shall be able to force the deposits in the desired direction. The public are now perfectly free to use their own initiative and discretion in choosing repositories for their own money. We are sure that in course of time they can be persuaded, for practical as well as sentimental reasons, to make their deposits with the Indian banks. This will surely be when the Indian banks have gained experience and strengthened their resources, and it seems to us to be putting the cart before the horse to attempt to strengthen the Indian banks by deflecting the deposits of the public. Incidentally, one way of winning greater confidence with their own people would be for the Indian joint-stock banks to accumulate adequate reserves which would make them immune from the effects of a decline in the price of Government securities.

465. We are aware that the proposal to place restrictions on the receipt of deposits by exchange banks in India is sought to be justified by the position which obtains in the State of New York, where foreign banks cannot establish branches or take deposits, but can only open agencies and do restricted business. We may point out that this limitation is imposed by a New York State law and not by a Federal law. We have been unable to ascertain the reasons that led to the enactment of the State law which we understand has been in force for over a century. We also understand that there has been a proposal before the State legislature in recent years for the removal of the restriction, but that no progress has been made so far with the proposed legislation. We are not aware of any other country or State in the world where the receipt of deposits by foreign banks is legally prohibited.

466. We give below a comparative table showing the deposits received by the exchange banks and those received by the Imperial Bank of India and the other Indian joint-stock banks :—

Year.	Deposits in Lakhs of Rupees.				Percentage of total deposits.		
	Exchange Banks.	Imperial Bank.	Joint-stock Banks.	Total deposits of all banks.	Exchange banks.	Imperial Bank.	Joint-stock Banks.
	Rs.	Rs.	Rs.	Rs.			
1913 (pre-war year)	31,04	36,49	24,10	91,63	34	40	26
1919 . . .	74,36	68,21	61,27	2,03,84	36	33	31
1920 . . .	74,80	78,02	73,48	2,26,30	33	34	33
1921 . . .	75,20	65,78	80,16	2,21,14	34	30	36
1922 . . .	73,38	57,01	65,02	1,95,41	38	29	33
1923 . . .	68,44	74,20	47,69	1,90,33	36	39	25
1924 . . .	70,63	76,71	55,16	2,02,53	35	38	27
1925 . . .	70,55	77,83	57,91	2,06,29	34	38	28
1926 . . .	71,54	73,90	63,15	2,08,59	34	35	31
1927 . . .	68,86	72,07	64,30	2,05,23	34	35	31
1928 . . .	71,14	71,30	66,35	2,08,79	34	34	32

It will be seen from the above statement that there has practically been no change in the respective proportions of banking deposits of the Imperial Bank of India, the Indian joint-stock banks and the exchange banks during the last ten years and that as compared with the pre-war year 1913, the share of the exchange banks has not shown any increase. If the tendency continues unchanged in future, any limitation on the receipt of deposits by exchange banks seems unnecessary. If, however, it appears at some subsequent date that Indian banking deposits are going into the hands of these banks to a greater extent than at present, the reasons for the changed development will have to be investigated. For the present, the position in regard to the Indian banks seems to be quite satisfactory if it is remembered that during the decade two important Indian banks, namely, the Alliance Bank of Simla and the Bengal National Bank, failed.

467. In our opinion there is one important reason why India should be particularly cautious in taking any action at this stage to restrict the operations of foreign banks within her territories.

On grounds of sentiment, as well as of a more rapid economic development, her intelligentsia are anxious that a substantial portion of the business connected with the financing of her foreign trade should pass into the hands of national banks. The successful fulfilment of this natural desire must entail the opening of a network of branches of Indian banks at various important centres of the world. If, however, India at this stage wants to introduce measures restricting the operations of foreign banks within her territories, the success of the ideal referred to in the preceding sentence is sure to be largely hampered; for other countries are likely to imitate India in the matter of restrictions on the operations of foreign banks. Indeed, the retaliation may be directed immediately against the operations of Indian banks and bankers working in particular localities. It would not be inappropriate in this connection to give the following quotation from paragraph 778 of the report of the Burma Provincial Banking Enquiry Committee :—

> "In India proposals have been made for the protection of Indian banking, meaning that banks managed by Indians should not be subjected to the competition of foreign banks. In these proposals the term *foreign bank* includes banks incorporated in the United Kingdom and the British Colonies but not European-managed or any other banks incorporated in India. But (as we have pointed out in paragraphs 8, 69 and 424) the term *India* is ordinarily used in Burma so as to exclude Burma, and the term *indigenous* cannot be properly applied to the Chettiyar community in Burma. In the event of Burma being politically separated from India, banks in Burma which have been incorporated in India will thus be as foreign to Burma as banks incorporated in England or elsewhere. But we are opposed to protection for the present; we think that in Burma at the present time it would be detrimental to the general welfare of the country. The agriculture of Lower Burma and much of its trade and industry are relying at present upon foreign capital."

468. For the reasons given in the preceding paragraphs, we are opposed to the suggestion that exchange banks should be prohibited from taking deposits in India. In our opinion, such a measure is not necessary for the development of banking facilities in India; nor is it desirable at this stage in the wider interests of India's development. Further, for similar reasons, we are not in favour of limiting the operations of the exchange banks to port towns and requiring them to close down the inland branches of existing banks within a specified period. We think that such a restriction

may be detrimental to the interests of the merchants engaged in the foreign trade of India. The facility of direct connection with the foreign exporter and importer is a real advantage to the Indian trader and it is not for us to dictate how the Indian exporters and importers shall do business in future, especially when such a course may involve increased cost to them. We have, however, recommended in Chapter XXV that in order to ensure a well-ordered development and extension of joint-stock banking in India, any bank desiring to open a new branch in India should be required to obtain the approval of some authority in India, preferably the Reserve Bank, before doing so. That regulation will automatically apply to the non-Indian banks also, and to that extent, we have no objection to the existing freedom of exchange banks to open new branches in the interior being curtailed. Should this curtailment involve any hardships to the merchants engaged in the foreign trade of India, the matter will no doubt be represented by them to the Reserve Bank.

469. As an exception to what we have stated in the preceding paragraph, we have no objection to a provision being made in the licences to be issued under the proposal made by us in paragraph 451 to foreign banks with their head offices in the State of New York or other countries which limit the operations of foreign banks within their territories, imposing similar restrictions on the business of such banks. This arrangement would be in accordance with the policy of reciprocal treatment advocated by us in that paragraph.

(iii) *Registration of Exchange Banks with Rupee Capital.*

470. It has been suggested to us that foreign banks should not be allowed to do business in India until they register themselves under the Indian Companies Act with rupee capital and have an Indian directorate. This suggestion has in view, among other objects, the protection of Indian depositors and the guarding against unfair racial discrimination. Some witnesses who made this suggestion did not wish to make it a main point, if the protection to depositors and Indian interests was ensured in other ways. It has been pointed out, on the other hand, that the facilities now offered by exchange banks to Indians and non-Indians engaged in foreign trade are as cheap as can be expected, partly as a result of severe competition and partly on account of the fact that the exchange banks have intimate association with the London Money Market and are able to get funds from that market at relatively cheap rates. This access to the London Money Market is a valuable privilege enjoyed by the non-Indian banks and the history of the National Bank of India affords an apt illustration in this connection. The head office of this bank was first in Calcutta and the Bank had rupee capital. In 1866 its head office was changed to London and its rupee capital of about Rs. 32 lakhs was converted into sterling of about £500,000, requiring representation of non-Indian interests

on a wider scale. At the time this transfer was made, 4 out of the 7 directors of the Bank were Indians. The representatives of the exchange banks drew the inference that the directors realized that it was advisable in the interests of the Bank to transfer its head office to the central market of exchange. If the existing exchange banks in India were converted into rupee companies with Indian directorates, it is stated that the existing advantages from the present association may be discontinued. This would re-act upon the facilities made available by the banks to their customers. We are not in favour of this proposal which in our opinion would have obvious disadvantages from the point of view of access to the London market. While this reason has perhaps application to the present moment, we are opposed to the proposal on more general grounds. The establishment of a Reserve Bank and the progress of Indian banking should go hand in hand. The time may come when the exchange banks will find that for some of their Indian business recourse to the Reserve Bank is more valuable than recourse to the London market, and they would be required from the commencement of the operations of the Reserve Bank to keep a deposit with that bank equivalent to a prescribed proportion of their liabilities to the public in India. We take it that to all intents and purposes the Indian branches of exchange banks already work on a rupee basis; and we do not personally see any banking advantage in the circumstances in an Indian registration or a rupee capital. On the other hand, there are difficulties in the way of converting the exchange banks into rupee companies under any reasonable scheme. When taking over the assets and liabilities of the existing banks, the rupee company may be expected to pay for the goodwill and the cost of this would have ultimately to be borne by the customers of the new company. Further, the proposal is likely to result in the splitting up of existing institutions into smaller institutions with reduced capital and reserves. The depositors would not in that case have the security of the existing international resources of the exchange banks. This would defeat one of the main objects of the proposal.

The real intention behind the proposal seems to be to provide in the near future that a majority of shares in the new institution should be held by Indians. This is part of a larger question, namely, how far any restrictions can be placed on the lawful trading activities of non-Indians in India and cannot properly be settled by the Banking Enquiry Committee.

471. Some witnesses did not go so far as to suggest that the existing banks should be registered under the Indian law. They would be satisfied with an Advisory Board to be associated with the management of each exchange bank, which would be consulted by the latter in all matters like the granting of advances and cash

credits. This, it was thought, would remove the existing prejudices against exchange banks and the complaint that the banks were not treating Indians in the same way as non-Indians. One objection against this proposal is that these Advisory bodies, as their name implies, would be merely advisory and that their recommendations would not be binding on the banks. Nevertheless, we think that the appointment of local Advisory Boards at each branch would help to establish a sympathetic contact between the existing non-Indian management of banks and the Indian customers; and we support the suggestion.

(iv) *Training and Employment of Indians.*

472. At present there is no arrangement by which exchange banks take Indians for training and employment. The only appointments in these banks, apart from the posts of cashiers, which Indians can aspire to are of a clerical character. Increased employment and training of Indians has therefore been advocated by several witnesses for various reasons :—

(*a*) There is a paucity of Indian exchange banks and if the existing non-Indian exchange banks help Indians to get the necessary training, it will supply India with a number of trained men in the field of exchange banking which will facilitate the opening of exchange banks by Indians.

(*b*) The exchange banks have been established in India for a long time and have been carrying on their business with the help of Indian deposits, though it is true that the banks themselves have at times imported funds from abroad. Considering the fact that they derive a considerable portion of their profits from dealings in trade with Indian merchants and from Indian deposits, expression has been given to a strong feeling by Indian witnesses that these banks should give adequate employment to Indians in the higher appointments under them. At present, the banks import their superior officers from overseas who are naturally paid a higher salary than it would be necessary to pay Indians locally recruited for such service. It would, therefore, be in the interest of the banks themselves, as well as of the bank's customers, to reduce their overhead charges by replacing highly paid non-Indians by Indians who are not so costly. One suggestion made is that the exchange banks might follow the scheme started by the Imperial Bank of India. Other suggestions have also been made demanding the fixing of certain percentages for the employment of Indians in higher posts.

473. The representatives of the exchange banks have, however, contended that it would be difficult to place any restrictions on their choice of officers. Further, the shareholders of these institutions also naturally have a right to say to whom the working of banks in India should be entrusted. They have pointed out that officers in the higher grades of service are men recruited for service throughout the world and not merely for service in India, and that this circumstance might prove to be a difficulty in the way of Indians being employed in such higher posts.

474. We are impressed by the fact that though the exchange banks have been operating in India for more than half a century they have not employed a single Indian in the superior grades of their service. It can hardly be contended that the banks have been unable during all this time to find even one competent Indian who could be entrusted with a superior officer's position in their organization. Even the foreign banking experts have admitted the force of the Indian point of view that banking in the hands of foreign institutions does not give as much employment to Indians as would be the case with purely Indian banks, and they have suggested that the policy of training and employing Indians should be encouraged by the foreign banks. We recommend for the consideration of the exchange banks that they should have a scheme of probationary assistants on the model of the Imperial Bank of India's scheme and promote to higher posts in due course such of them as they find suitable to hold responsible positions in the management. While international education and experience would be a valuable qualification for all members on the staff of these banks, we do not think the introduction of the scheme we have proposed is incompatible with business principles or efficiency.

Opening of an Indian Exchange Bank.

475. We have already referred to the fact that the share of Indians in the port-to-port operations connected with the financing of India's foreign trade is very small. Indians attach great value to their participation in this field of business and it has been a sore point with them that the Imperial Bank of India, which is the only Indian bank of standing that can compete with the exchange banks, is debarred by an Act of the Legislature from engaging in exchange business. The main reason advanced for the present restriction is that foreign exchange business is attended with risk and the Imperial Bank of India, so long as it continues to keep the Government balances, should not be allowed to take this risk. The existence of any undue risk in this direction is, however, denied by some witnesses. Another reason which has been suggested is that the Imperial Bank of India is holding the balances

of the exchange banks and it should not therefore be allowed to use these balances to compete with the exchange banks. Although the Managing Governor of the Imperial Bank of India stated before the Committee that he did not think that the Government of India had placed the existing restrictions on that Bank with the object of securing an advantage to the exchange banks, witness after witness suggested that the action of the Government of India in this matter was a surrender to the unjust demands of the foreign institutions to prevent an Indian institution of standing from competing in their preserved field.

476. Several witnesses have suggested to us that the best way to obtain for Indian banks a share in the exchange business is to liberate the Imperial Bank of India from its present restriction on its doing this business. It has, however, been observed that some of the Indian banks that favoured the Imperial Bank's doing exchange business have been actuated by the desire to lessen the competition of that Bank in the financing of internal trade. On the other hand, some witnesses have suggested that exchange banking is a very technical business and that the existing staff of the Imperial Bank of India is not qualified to handle it. The Managing Governor of the Imperial Bank of India admitted that exchange banking was technical, but he thought that given the liberty to do exchange business, the staff of the Bank could soon be trained for the purpose and that the Bank would be able to establish without any difficulty the necessary valuable connection with the London Money Market in order to take its place among the exchange banks.

477. Speaking from the point of view of trade alone, it may be said that the facilities available at present for financing India's foreign trade, both imports and exports, are sufficient. But as already stated the agencies which cater for these needs are all of them of non-Indian origin and the few Indian banks which at one time or other attempted to engage in exchange business have never attained anything like even a partial success. As a result, the Indian importers and exporters have been left with no other alternative than to depend absolutely on the facilities which the foreign banks may offer to them.

478. The extent of a nation's participation in its foreign trade depends considerably on the facilities which the banking system gives to its traders. We have already referred to the various cases of alleged racial discrimination which almost all the Indian witnesses, including responsible Chambers of Commerce, placed before us. The representatives of the Exchange Banks' Association denied the existence of any racial discrimination and asserted that credit was impartially available to all customers, Indian or non-Indian, according to their financial standing irrespective of

nationality. They admitted, however, that through social intercourse their higher officials had more opportunities of obtaining intimate knowledge of the integrity and the resources of non-Indian clients than of Indians. It is impossible for us to come to any definite conclusion as to how far the allegations made by the Indian witnesses are justified by the actual conditions and practices prevailing, particularly as even Indian clients are reluctant to disclose the full facts connected with their relations with their bankers; but the fact remains that there is a strong feeling among most Indians that foreign banks do discriminate against them. It is not unnatural that a foreign bank should endeavour to do as much as possible to promote the interests of the nationals of its own country. It is for this reason that even after the British banks had become well-established, we have had the advent of American, French, Japanese and Dutch banks in India catering chiefly for their own nationals. The fact that non-British foreign banks have entered the Indian banking field and have continued working under conditions and at a time when it is complained that exchange business brings little or no profit is conclusive testimony that the importance of the individual nation's interests has outweighed the question of loss, if any, in maintaining the Indian connections.

479. We have studied with great interest the measures that Germany took to increase the participation of German banks in the financing of her foreign trade. Some of these measures seem to us to be well adapted for India and we shall refer to them in due course. We only wish to mention in this connection one of the reasons which induced German banks to undertake those measures and which in our opinion very aptly illustrates the conditions in India. The methods followed by English banks in granting credit accommodation for foreign customers, including Germans, were considered very conservative and the tendency of both the British export merchants and the British overseas banks was to keep down the length of credit terms. The conservatism also extended to the selection of firms to which credit was given. In both these respects, namely, the period of credit and the standing of firms, the German banks that were created were distinctly more accommodating and this assistance enabled German exporting merchants to capture trade. The author of the book "Joint Stock Banking in Germany" says that—

> "It can hardly be doubted that this credit policy contributed to the growth of the German export trade and, judged on the whole, as a policy applied to the trade of a country which came late into the world's markets, it seems to have justified itself by its results."

480. The history of Japan also furnishes an interesting object lesson. In 1880, Japan founded a special bank for foreign trade

finance, the Yokohama Specie Bank, "with the avowed purpose of fostering the overseas trade of Japan."* It is now generally admitted that "the marvellous expansion of the foreign trade of Japan in the past half century owes much to the banking facilities afforded by this bank and that as a result of these facilities the participation of the Japanese in that trade has increased substantially. It is possible that the venture may have resulted in a considerable amount of financial sacrifice to Japan; but the amount of such sacrifice which a country should submit to in order to secure lasting advantages to its economic life, and the steps which it should take to minimize the sacrifice, are matters for the careful consideration of the Government and the public of the country.

481. After a careful review of the position and of the share taken by India, both in carrying on the business of her import and export trade and in the provision of banking facilities for such trade, we have come to the definite conclusion that it is not desirable that India should rely for all time on the facilities afforded by non-Indian institutions for the financing of her foreign trade. The financing of foreign trade is, however, essentially international, and in so far as it involves co-operation between two countries, there will always inevitably be a considerable foreign element in it. In order that India might obtain her legitimate share, both in the sphere of banking and of trade, we think it is necessary to take action in more than one direction.

482. In the first place, we consider that such of the Indian joint-stock banks as are well established should open foreign connections useful to their clients. This was one of the methods adopted by German banks in similar conditions and has much to commend itself as it obviates the necessity of opening full-fledged foreign branches at greater cost. In our opinion, even this small development should assist the natural growth of the Indian share in India's foreign trade, both directly by the facilities afforded to the customers of these banks and indirectly by providing a further stimulus to the foreign banks under the stress of competition to assist the Indian merchants to a greater degree.

483. In the second place, we consider that on the establishment of the Reserve Bank and the simultaneous withdrawal of the restrictions now imposed on the transaction of foreign exchange business by the Imperial Bank of India, the latter should be induced to take an active share in the financing of India's foreign trade. The agency business which the Imperial Bank of India at present transacts for some of the exchange banks, the amount of inland

* Parker Willis and Beckhart: Foreign Banking Systems, p. 822.

trade finance connected with foreign exports and imports which passes through its hands even at present, and the wide area of its operations are factors which in our opinion should facilitate the successful entry of that bank in the field of foreign trade finance. We accordingly recommend that the Reserve Bank should enter into a definite arrangement with the Imperial Bank of India for a period of five years or such other period as the Reserve Bank may consider desirable, by which the Reserve Bank would utilize the Imperial Bank as agents wherever the former has not got a branch of its own and the latter has one, on terms to be settled between the two banks. When a concession of this kind is given, it would not be unreasonable to insist on a preponderance of the national element in the institution receiving the concession.* We therefore recommend further that the arrangement between the Reserve Bank and the Imperial Bank of India should definitely provide that during its continuance—

(1) 75 per cent of the Directors on the Local Boards and a majority of those on the Central Board of the Imperial Bank should be Indians, and

(2) no further recruitment of non-Indians to the staff of the Imperial Bank of India should be made except in special cases and with the approval of the Finance Minister of the Government of India.

Provision (1) is easily understandable, but it may be asked why provision (2) is necessary, seeing that the appointment of the staff of banks is a matter for the bank's directorate and the bank's shareholders. Our sole reason for suggesting that provision is the complaint of dissatisfaction we have heard from various quarters regarding the unsympathetic attitude towards Indians of non-Indian officials on the staff of the exchange banks. In fact we have heard this complaint to some extent even in regard to the Imperial Bank of India itself.

484. We shall perhaps be justified in devoting some space in this connection to a discussion of whether the concession that we propose to be given to the Imperial Bank of India in the preceding paragraph is really a concession. It is possible to argue that: (1) when the Reserve Bank is established, it will not have branches at more than three or four places and in order to carry out its duties as Government bankers, it will have to use one or other of the commercial banks for doing Government treasury business as its agent at other places; (2) that the Imperial Bank of India is the only institution in India which has got branches at a large number of places where there are Government treasuries, and it

* *Cf.* Recommendation VI in Part III of the Report of the External Capital Committee, 1925.

will be in the interests of the Reserve Bank itself to entrust its agency functions solely to that bank and (3) that the arrangement recommended by us in the preceding paragraph does not therefore imply any real concession to the Imperial Bank. While we are prepared to admit the force of the reasoning, we do not think that it is in the interests of other joint-stock banks in India and of their future development that the Imperial Bank of India should have a monopoly of this agency business for all time to come. We think therefore that the Reserve Bank should have power to make its own arrangements for this agency work either through the Imperial Bank of India or any other joint-stock bank which it may select. If the Reserve Bank selects accordingly a number of joint-stock banks for this business, it will entail the loss of the privileged position which the Imperial Bank of India enjoys at present or would enjoy as the sole agents of the Reserve Bank. The Indian joint-stock banks know full well the value of such a privileged position, especially from the point of view of creating confidence in the mind of the public and of attracting large amounts of cheap deposits. We have said enough to show that the arrangement that we have proposed, giving a monopoly of agency business, coupled perhaps with liberal terms for carrying on this business, should be considered a sufficient inducement by the Imperial Bank of India to undertake active financing of India's foreign trade. We would leave it to the Reserve Bank to make the terms of the arrangement sufficiently attractive for the achievement of the purpose for which we are recommending it.

485. If, however, the Reserve Bank finds it impossible to arrive at a satisfactory settlement in the matter with the Imperial Bank of India, or if the former finds that within the stipulated period the Imperial Bank of India is unable to participate actively in the financing of India's foreign trade, we recommend that the Government of the day should take steps to secure the establishment of an Indian Exchange Bank. We have considered it advisable to make the starting of an Indian Exchange Bank conditional on the non-fulfilment by the Imperial Bank of India of Indian aspirations in the field of foreign trade finance, as we are averse to a new venture being undertaken with assistance from the funds of the State until an effort has been made to explore whether the same object cannot be achieved through an existing institution the building up of which has cost India much time, trouble and money.

486. The lines on which we recommend that the new Indian Exchange Bank should be established are as follows :—

(1) The capital of the bank should be three crores of rupees. It may not be possible to raise this amount all at once, but that would not create any insurmountable

difficulty, for as the bank will be able to attract business only by degrees, the acquisition of its capital may be spread over a period of, say, three years. Of the total sum of three crores, it may be found sufficient to call up two crores in the first year and another one crore during the next two years. The capital of the bank may be increased as and when required, particularly when the establishment of foreign branches is taken up. The subscription to share capital of the new bank should, in the first instance, be open to joint-stock banks registered in India. Such participation in the creation of new banks is neither unusual, nor is it a recent development. As instances may be mentioned the Deutsche Asiatische Bank, British Overseas Bank, Lloyds and National Foreign Bank and the recently formed Internationals Boden Credit Bank. If the share capital is not fully subscribed within a prescribed time, the balance which cannot be raised by such subscription should be supplied by Government, which should arrange gradually to dispose of their holding later to the general public.

(2) So long as Government holds more than 50 per cent. of the capital, it should have a predominating voice in the appointment of the directors.

(3) The question of entrusting the work connected with Government remittances to a department of the new bank working under the control of the Reserve Bank should be considered in consultation with the authorities of the Reserve Bank. There should, however, be a clear stipulation that the new bank will not be allowed to make a profit on any Government remittance purchased by it in the open market in its capacity as agent.

(4) Further details of the scheme will have to be worked out in consultation with the Reserve Bank and with due regard to the circumstances prevailing at the time of the creation of the new Indian Exchange Bank.

487. Although we have suggested a share capital of Rs. 3 crores with Rs. 2 crores initially paid up, we think the Bank would require further working capital of a considerable amount. It would not immediately be able to attract deposits from the public which can only come by the confidence created in the minds of the latter by its sound working and management. In the meantime we

think that the Bank will have to depend to a great extent on the facilities afforded by the Reserve Bank for financial accommodation based on its portfolio of export and import bills. We observe that on page 262 of his "Organization of Indian Banking" Thakur recommends a capital of Rs. 10 crores for such a bank, of which one-half should be paid up initially. Thakur does not give any detailed calculation in support of his figure, but he states as follows :—

> "In order that the representative Exchange Bank of the country should command requisite confidence in the outside world, which is so essential for its successful working, we have recommended such a large capital. The bank will need deposits and discounting facilities in foreign countries and they will not be forthcoming to the extent desired and necessary, unless there is sufficiently large capital at its back. If, however, the figure of Rs. 10 crores is considered too high it may be reduced to Rs. 7½ or Rs. 5 crores."

We also note that the initial capital provided for the Yokohama Specie Bank was 3 million yen at a time when the total foreign trade of Japan was about 82 million yen; and that with a total foreign trade of over 4,000 million yen its present capital stands at 100 million yen while it holds 20 million yen on a *quasi*-permanent loan account from the Bank of Japan at a special low rate of 2 per cent. We recognize that with the establishment of the Reserve Bank the considerations mentioned by Thakur for providing the new Indian bank with a larger capital will lose some force; but we have little doubt that the bank with a share capital of Rs. 2 or Rs. 3 crores will fail to secure a material share of the foreign exchange business of India unless it received financial accommodation in other directions from the Reserve Bank. We would leave it to the Government of the day, if and when they decide to take action on our recommendations in this particular matter, to settle an adequate amount of capital for the new bank in consultation with the Reserve Bank, and after careful consideration of the financial accommodation which the latter may agree to provide for the former.

488. It has been suggested to us that the existing exchange banks are so well entrenched in their present position that in order to give the new bank some chance of competing with those institutions it is necessary to give it a position and prestige by giving it the sole monopoly of Government remittances. The idea underlying the suggestion is that the new Indian Exchange Bank would be able to sell to Government all the sterling resources in its hands and the other exchange banks which now sell exchange to Government would have to do it to the new Indian Exchange Bank.

We have discussed this question carefully with the foreign banking experts and we agree with them that there are various objections to the proposal as put in this form. *Firstly*, it will be the primary task of the Reserve Bank, when it is established, to maintain the stability of the international value of the rupee. For this purpose, and for the purpose of keeping the Secretary of State in funds, it will be constantly in the market buying sterling exchange. It will, however, have to conduct its operations in such a way as not to upset the market and it is not inconceivable that occasions may arise when instead of going into the market, it will have to depend on its accumulated holdings of foreign exchange to supply the Secretary of State with funds. Partly because it is difficult to distinguish the Reserve Bank's remittance operations on behalf of Government and its operations for currency purposes, and partly because the considerations which would govern the operations of the Indian Exchange Bank in the exchange market would be entirely different from those that would govern the Reserve Bank, we find it difficult to support the proposal to give the new Indian Exchange Bank a monopoly of Government remittance. *Secondly* we do not think that the Indian Exchange Bank would be able to secure the full amount of Government remittance as cheaply as the Reserve Bank. It will have to depend upon its competitors for enabling it to complete a major portion of the remittance programme of Government, and we cannot say whether the existing exchange banks will not force the rates against the Indian Exchange Bank and thereby against the Government and the tax-payer. While the Reserve Bank will be fully armed to deal with such a situation, should it arise, the Indian Exchange Bank will be powerless to cope with it. Moreover the Indian Exchange Bank itself which will, after all, be a shareholders' bank might legitimately charge the Reserve Bank some commission on its business, even if it did not try to make a profit.

The specific proposal that we have made in this connection meets, in our opinion, all these difficulties. By making the new Exchange Bank merely an agent of the Reserve Bank and giving the latter full control over the remittance operations and by providing that the new Bank should not make a profit on any remittances which it makes as the agent of the Reserve Bank, we have purged the scheme of its inherent drawbacks and bestowed on the new Bank a unique and privileged position.

We understand that the Yokohama Specie Bank and the Bank of Japan afford an interesting parallel in this connection. The Bank of Japan, we are told, entrusts all its foreign exchange operations to the Yokohama Specie Bank. We have, however, no accurate information about the extent of this foreign exchange business, the precise nature of the arrangements in force, or the

degree of success which has attended this scheme. Of one thing, however, we are clear, namely, that the introduction of a system of dual control over exchange operations is definitely to be avoided when starting a Reserve Bank.

489. From what we have stated above, it will be seen that it is our intention that the new Indian Exchange Bank should not be started until after the Reserve Bank has come into existence and until after the scheme of participation of the Imperial Bank of India in the financing of foreign trade has been tried and found wanting. It has been suggested that the Reserve Bank may take a long time to come into being and that any avoidable delay in creating the new Indian Exchange Bank will only strengthen the chain that hold India dependent upon the foreign banks. We are unable to appreciate this suggestion. We can by no means agree that the delay in bringing the new Indian institution into existence caused by the delay in the inauguration of the Reserve Bank can be avoided, for we have shown that, in our opinion, the new Indian Exchange Bank cannot take its proper place among the exchange banks in India without the advice and assistance of the Reserve Bank. On the other hand, we have made it quite clear that what India wants for a sound development of her banking system is the immediate establishment of the Reserve Bank. We cannot obviously subscribe to any suggestion which assumes the contingency that the establishment of the Reserve Bank may be delayed, nor can we agree that any other banking measure is more urgent and imperative than the one to establish a sound and strong central banking institution.

Creation of "Joint" Banks.

490. A suggestion was made by some of our colleagues at a late stage of our deliberations that the real and permanent solution of the problem of financing India's foreign trade, both from an economic and from the national standpoint, is the creation of "joint" banks, in which the controlling interest would be a partnership on equal terms between Indians and Europeans, or members of other countries with which we carry on our foreign trade. One of the main objections to the existing exchange banks is that they are foreign, and the proposal to enforce registration as rupee companies is an attempt to Indianize these foreign institutions with a view to removing one of the causes of ill-feeling between the Indian mercantile community and these banks. It was pointed out however that the mere idea of foreign trade implies two parties, one Indian and the other foreign, and it is not to the interest of either that either should have a dominating voice in the financing of the business. In so far as the trade is mutual and involves co-operation, so should the financing of the trade. With this object in view, it was suggested that banks might be

formed by mutual arrangement between India and the principal countries with which she trades in which the rupee capital would be furnished by Indians, and the foreign capital by the partner abroad, the control and establishment being under joint supervision, and the profits realized from the business being shared between the parties.

491. The idea of joint banks in the sphere of international trade, which postulates co-operation and good-will among nations trading with each other, is a valuable one. It brings out, in the special field of banking, the basic fact of the economic life of nations, namely, economic solidarity, which is apt to be lost sight of when economic affairs are deliberated upon in an atmosphere of isolation, the fact being that economic welfare is interdependent and should be regarded from that point of view. This fact is strikingly brought out in the distress which has been caused by the world-wide economic blizzard. It may not be possible to make an immediate advance in the direction of joint banks in these times of widespread depression in business, but there is no reason why they should not be a success when prosperity returns. Apart from the service which they may render to trade, they are certain to promote international co-operation and to eliminate many causes giving rise to misunderstandings and friction.

492. A variant of the scheme based on the same principle of co-operation was also suggested; but no clear cut proposals were placed before us and we can only indicate the lines on which beneficial action might be taken, if practical bankers in India and abroad would consider the development of mutual advantage. It has been maintained that owing to the cut-throat competition of recent years both in internal and external trade, there has been an increasing tendency for joint-stock banks and exchange banks to endeavour to poach on each other's preserves in the struggle for fresh business. It is therefore suggested that joint-stock banks and foreign banks should endeavour to find some method of affiliation or amalgamation, which would result in co-operation instead of competition, and would at the same time avoid the undesirable criticism that either party was aiming at confiscation, absorption or domination. Reference has already been made to acquisition of Indian banks by foreign banks and its effect on national sentiment. What, however, is aimed at in the idea under consideration is an affiliation under which each party might hold an equal interest in the other, and the two institutions would work together not merely as agents or as formal shareholders in each others' concerns, but as one concern being directed and run for the interest of both; with free interchange of expert staff, full and frank consultations as regards policy, and a generally recognized mutual responsibility for each other's well-being.

In a matter of this nature it is obviously impossible to suggest any form of compulsion or legislation; the matter is primarily one for shareholders and directorates. We feel however that if "joint" banks on the above lines could be evolved out of existing institutions the result would be advantageous not only for the institutions concerned, but also for the country as a whole.

POINTS OF DIFFERENCE BETWEEN US AND THE FOREIGN EXPERTS.

493. Before concluding this chapter we should refer to that part of the report of the foreign experts which deals with the financing of foreign trade. The report is based upon the provisional conclusions communicated to them at an early stage of our final deliberations, which differ considerably from the final scheme as developed in the preceding paragraphs. We have taken into account all the considerations urged by the foreign experts and the scheme as finally embodied in this chapter meets, in our opinion, most of the criticism levelled against the original scheme. There, however, still remains one essential point of difference. While the foreign experts say that they cannot concern themselves with the ambitions or desires of a political or nationalistic character, we ourselves feel that we should be failing in our duty if in addition to discussing the problem from the point of view of the present-day requirements of trade only we did not also give due consideration to wider economic issues like those referred to in paragraphs 479 and 480. Our published discussions with the foreign experts and the economic literature of other countries will show that national ambitions and desires have indeed played a very great part in the shaping of policies of these countries in varied spheres of life. This essential difference in our view-points accounts for the experts not advocating any Government assistance to the new Indian Exchange Bank in any circumstances. We on our part are convinced that if the attempts to obtain the whole of the share capital of the new Bank from Indian joint-stock banks do not prove successful, there is nothing inherently wrong in the State providing the balance of the capital with the intention of disposing of it to the public as soon as circumstances permit, if it agrees with us that such assistance will be in the best interest of the economic advancement of the country.

494. In view of the importance of the problems discussed in this chapter we may now briefly summarize our recommendations as follows:

(i) There are certain directions in which the existing mechanism of foreign trade finance may be improved, such as encouragement of Indian insurance companies, grant of equal facilities to Indian and non-Indian traders and training and employment of Indians by exchange banks. We have made our

recommendations in regard to these matters in paragraphs 445, 471 and 474. In our opinion the best way to implement these recommendations is for the Government of India to arrange for a convention with the exchange banks.

(ii) Steps should also be taken to secure for Indians a larger share in the financing of the foreign trade of their country. We suggest that the first steps should be in the direction of using existing Indian institutions for this purpose. Our recommendations in regard to the joint-stock banks other than the Imperial Bank of India are contained in paragraph 482. We hope that joint-stock banks may be persuaded to increase their activities in this field by their own self-interest. As regards the Imperial Bank of India, we have suggested certain valuable inducements on certain conditions in paragraph 483.

(iii) If the attempts to secure for Indians their legitimate share of foreign trade finance by using existing machinery are not crowned with success, we have no hesitation in recommending the establishment of a new Indian Exchange Bank with the facilities and privileges required for guaranteeing the success of the new institution.

(iv) We have also suggested in paragraphs 490 to 492 that the question of establishment of "joint" banks may usefully be explored fully by the parties concerned.

DIFFERENCE OF OPINION WITHIN THE COMMITTEE.

495. Those of us who have subscribed to the views and recommendations in this chapter desire to add the following observations on the dissenting minutes signed respectively by six of our colleagues and by Mr. Sarker so far as they relate to the subject of the financing of foreign trade. Our colleagues differ from us (i) in the analysis of the present position and (ii) in the recommendations made to meet it.

I.—MINUTE OF SIX DISSENTING MEMBERS.

(i) *Analysis of the present position.*

496. In paragraph 477 of our report we have stated our conclusion that the facilities available at present for financing India's foreign trade are sufficient. By this we meant that the existing banks give merchants all the assistance required to finance this trade provided the merchants are of good reputation and possess means in a reasonable proportion to the trade that they do. The

authors of the dissenting minute justify their dissent from this conclusion on two grounds :—

(1) the direct evidence of Indian commercial bodies; and

(2) the indirect evidence from a comparison of the share of Indians and non-Indians in the external trade of India.

497. As regards (1) they admit that many of the witnesses were not prepared to give details of their grievances for formal submission to the Committee. While we can appreciate the reluctance of witnesses to substantiate the charge publicly before the Committee, we find it hard to accept these charges when the witnesses were unwilling to supply information even confidentially and when it was thus not possible for us to pursue the matter further.*

498. In contrast to these charges of racial discrimination, we have the authority of certain other witnesses and some Provincial Committees that the facilities are adequate. For example, the Bombay Provincial Banking Enquiry Committee report that in regard to imports "the existence of the Port Trust warehouses, coupled with that of the well-organized system of credit given by exchange banks and importing houses, has resulted in the adequate financing of the trade in imported goods and there does not seem to be any demand for greater facilities." Again, in regard to export bills, even the Indian Chamber of Commerce, Calcutta, on whose evidence the dissenting minute is mainly based, admit that there is a great competition among the exchange banks for securing such bills. The Chamber, however, pointed out a number of directions in which Indian exporters and importers were experiencing difficulties. We have dealt with these complaints fully in paragraphs 439 to 446 of our Report. The representatives of the Exchange Banks' Association, who appeared before us and with whom we had a long and frank discussion *in camera*, observed that some of the complaints were brought to their notice for the first time and could have been easily and quickly remedied if they had been brought to their notice earlier. (Question No. 3460, Oral Evidence.) In fact in several instances the Exchange Banks' Association have already taken action, such as the publication of the rules of the Association, the levelling down of the penalty rate in Calcutta for the late fulfilment of contracts, the reduction of the rate of interest on import bills from 6 to 5 per cent and the issue of instructions for giving more liberal support to Indian insurance companies. In these circumstances we cannot but adhere to the conclusion recorded by us as to the adequacy of the existing facilities. We understand that our six colleagues who

* Please see question 1239 *et seq.*, Volume of Oral Evidence.

have signed the dissenting minute had no information about the reduction in the rate to 5 per cent which was communicated by one of our colleagues to the members of the Committee who have subscribed to the views in this chapter, only at the time when they were considering that dissenting minute.

499. As regards the indirect evidence from the share of the Indians in the foreign trade of India, the authors of the dissenting minute refer to the figures furnished to us by the Indian Chamber of Commerce, Calcutta, and the Exchange Banks' Association. It is pointed out in the dissenting minute that the figures furnished by the Indian Chamber are based on official and private publications. The Secretary of the Chamber has added in his letter forwarding the estimate that the figures relating to articles of trade other than jute and cotton have been verified by personal enquiries from the people in the trade. We should like to observe in this connection that in paragraph 5 of his note relating to this chapter, Mr. Sarker states that from the enquiries which he has been able to make, he is inclined to believe that the actual proportion is about 20 per cent. We have also recently been furnished with another estimate based on the customs returns for the Port of Calcutta which shows the share of the foreign trade of Calcutta in the hands of Indians to be 30 per cent. The fact that the proportion is different in the different estimates supports our conclusion that no reliable judgment can be based on those estimates without further investigation. As stated in paragraph 437 of our Report, it has not been possible for us to verify the figures given either by the Indian Chamber of Commerce or by the Exchange Banks' Association; we have ourselves pointed out the obvious drawbacks of the estimate furnished by the Exchange Banks' Association; but we cannot, in fairness to ourselves, accept any estimate as correct "in the absence of a more accurate estimate". (Para. 7 of the dissenting minute).

500. In paragraphs 5, 6 and 8 of their dissenting minute our colleagues have made an incursion into the history of commercial intercourse of India with other nations. Neither the author whom they quote in paragraph 5 nor their own observations in paragraph 8 set out the historial facts in their proper perspective. We do not propose to deal with this part of the minute as it is not necessary for our purpose. We only desire to make a passing reference to the inconsistency in the statements made in paragraphs 5 and 8. Our colleagues state that of the two causes of the initial concentration of foreign trade in the hands of non-nationals, the concentration of foreign trade finance in the hands of banks controlled and run by non-nationals has played the more important part. The author whom they quote in paragraph 5 is of the opinion that "almost the entire foreign trade had passed into the hands of Europeans when European banks came to be established." If the

foreign trade of India had already passed over into non-national hands, there was obviously nothing further left for the non-national banks to do to bring about such a transfer. The authority quoted by our colleagues and the statement that they themselves make are in conflict with each other. The reasons why the Indians did not possess any share of the foreign trade with Europe after the Western powers, successively the Portuguese, the Dutch and the English, had acquired the mastery of the seas are well-known facts of history and we do not propose to dilate on them.

501. Our colleagues infer that the small percentage of Indians' share in the foreign trade of India is due to the financing of their trade being the monopoly of the non-national banks. We are not prepared fully to subscribe to this view as we have no doubt that there are other factors which play a more important part in the situation. At the same time, we have admitted in paragraph 478 of our report that it is not unnatural that a foreign bank should endeavour to do as much as possible to promote the interests of the nationals of its own country. It is exactly for this reason that we have come to the conclusion that it is not desirable that India should rely for all times on the facilities afforded by non-Indian banks for the financing of her foreign trade. We have quoted in this connection from Professor Barrett Whale's book "Joint-Stock Banking" and pointed out how national banks can give extra-liberal facilities to merchants and firms of their own nationals, both in the matter of the period of credit and the selection of firms. In fact the author of the book traces the growth of Germany's export trade to the adoption of such a liberal credit policy by the German credit banks.

502. Our colleagues refer to the exchange banks' demand from merchants of audited balance-sheets of the latter's financial position. We do not think that it is correct to say that the exchange banks insist on their clients furnishing balance-sheets audited by auditors approved by the bank. The representatives of the exchange banks have definitely stated that it is only in cases where the banks are unable to ascertain even approximately the financial status of a merchant that the latter finds any difficulty in securing the accommodation that he needs. They have added that merchants and firms who maintain regular accounts and are willing to publish their balance-sheets duly audited find very little difficulty in getting the accommodation which the latter require. They did not lay any emphasis on the balance-sheets being audited by qualified chartered accountants. They only wanted the accounts to be audited by accountants who were on the approved list of Government. In fact this matter was cleared up in the oral examination of witnesses by two of the members who have signed the dissenting minute (Questions 3081 and 3082). We wish further to add that the exchange banks do not insist on balance-sheets in all cases.

503. Our colleagues refer to the invaluable assistance rendered by banks engaged in the financing of export trade in other countries in the matter of supplying their customers with information regarding foreign markets and prevailing prices, and observe that the lack of similar facilities in India is due to the non-Indian character of the banks engaged in the financing of foreign trade. It is true we have referred to this complaint in paragraph 268, but we are not conversant with the practice in other countries nor are we aware whether merchants and firms rely upon this assistance in their foreign trade business without any supplemental assistance from other sources. In any case the lack of such assistance in India if detrimental to those engaged in foreign trade will affect non-nationals much more than nationals, and one would have expected complaints to have been forthcoming from representatives of the former. We have recommended the establishment of marketing boards in various provinces and it will be one of their functions to obtain and publish information regarding foreign markets and foreign prices. We cannot say how far banks can usefully add to the service rendered by marketing boards in this direction.

504. Our colleagues have referred to foreign banks monopolising the best medium for banking investments, namely trade bills, and leaving to Indian joint-stock banks only such investments as those on landed property or on short-period advances against raw material in the mofussil during the period of the marketing of the crops. We are constrained to draw attention to the inconsistency in the argument of our colleagues. When the question of reviving the indigenous banker was considered by us, they agreed that with the revival of the indigenous banker, conditions for the extension of the bill-market will be created and the indigenous banker whose knowledge of local and trade conditions must form the basis of good bills would provide the commercial banks and the Reserve Bank with a gradually increasing number of genuine bills. In fact it has been pointed out by the authors of the dissenting minute that the volume of internal trade is as much as Rs. 9,000 crores; and if a bill-market securely based on this enormous volume of internal trade of the country developed, we think that that would give to the indigenous banker and the commercial banks in the country a safe, adequate and liquid form of investment. We have pointed out in Chapter XIII that the existing methods of marketing finance are undeveloped and that the replacement of cash and open account credit system by bills is a reform which is most urgently called for. We think, therefore, that if instead of directing the attention of the Indian joint-stock banks and the indigenous bankers to the field of foreign trade finance which is already well organized, their efforts were directed to the development and organization of internal trade finance, great and lasting benefit would accrue to the country.

505. Our colleagues have referred to the introduction of rupee import bills. We have already dealt with this subject fully in this chapter of our report. We should add that the rate of interest on import bills has recently been reduced to 5 per cent. We should not pass unnoticed the statement in paragraph 22 of the dissenting minute that "even though bills could be discounted in the Indian money market at under 6 per cent the Indian importer must finance his imports at a rate of interest, the minimum of which is 6 per cent". This is hardly correct. The exchange banks do not insist on retaining the import bills in their portfolio till maturity nor do they force the importers to continue to pay 6 per cent when accommodation is available locally at lower rates. The Indian importer is always at liberty to retire the import bills before due date and if he prefers the 6 per cent rate under the interest clause (now 5 per cent) to repayment by loans raised locally, it is because in the majority of cases even the 6 per cent rate is more advantageous than what he would obtain from the Indian money market.

(ii) *Recommendations.*

506. Our colleagues see no reason to suppose that the attitude of the Imperial Bank of India towards Indians would be more sympathetic than that of the foreign exchange banks and they therefore do not feel it would be a satisfactory solution of the problem to induce the Imperial Bank of India to take to foreign exchange business on the conditions stipulated by us. We do not think it is necessary to repeat the arguments which we have given in paragraphs 483 and 485 as to the desirability of utilizing the existing machinery of the Imperial Bank for achieving the object which both the authors of the dissenting minute and ourselves have in view. One of the conditions which we wish to impose on the Imperial Bank of India under our proposals is that 75 per cent of the directors on the local boards and a majority of the directors on the Central Board should be Indians. This recommendation, which is in accordance with the recommendations of the External Capital Committee, coupled with the increasing Indianization of the staff, is in our opinion, bound to result in provision of larger facilities to Indians engaged in the foreign trade. Moreover, we have no doubt that with the grant to India of a fuller measure of self-government both the Imperial Bank of India and the foreign exchange banks will make themselves more accommodating to the interests of Indians even if Indians may have any legitimate complaints in this respect at present. If for any reason it is found impossible to use the machinery of the Imperial Bank of India to fulfil Indian aspirations in the field of foreign trade finance, we definitely recommend that a new Indian Exchange Bank should be started.

507. Our dissenting colleagues desire that the State should initially subscribe the share capital of the new Indian Exchange Bank. In other parts of our report we have recommended that the State should actively help in the establishment of various institutions which, in our opinion, are more urgently necessary than a new Indian Exchange Bank. We would draw special attention to our assumption regarding the establishment of the Reserve Bank as early as possible with capital provided by the State. That institution is the first pre-requisite for the reorganization and development of Indian banking and is urgently required in order to make increased banking facilities available to agriculture, at present the main industry of India. The imposition of an obligation on the Government immediately to start the State Exchange Bank in advance of the Reserve Bank may weaken the power of Government to provide the capital required for the Reserve Bank. We do not, therefore, think it will be wise to delay action in these other directions by insisting on the provision of State capital for the purpose of the new Exchange Bank. Further, the object of creating a new Exchange Bank is to get for Indians not only a greater share of the foreign trade but also a greater share of the financing of such trade. We have already observed that a few of the existing Indian joint-stock banks are taking a part—though an inconsiderable part—in this finance. For example, the Central Bank of India in 1930 had a turnover of about £1½ million in foreign exchange and it is not unlikely that, left to itself, that bank will be able to develop its business within the next few years to a greater extent.* We, therefore, think it inadvisable to create a State Exchange Bank which would add to the difficulties of the existing joint-stock banks and thereby lessen their chances of taking their proper place in the financing of India's foreign trade. Our colleagues have themselves admitted that in actual practice very few hard and fast rules can be laid down demarcating the dividing line between the field reserved for internal trade and that for foreign trade. We are quite sure that the new Indian Exchange Bank, if it is to be a success, would find it necessary to give its clients a direct connection from the interior with the foreign importer or exporter. This would involve competition with the existing banks and in order to avoid this competition, our suggestion that the Indian joint-stock banks should first be asked to subscribe to the capital of the new Bank is justified. The new Bank formed according to our plan would be able to use its member banks for financing the portion of the trade from the ports to the interior and even if it had to enter into the field of internal trade financing, the profits from this business would accrue to the Indian joint-stock banks and the entry into that business would not therefore be resented as creating unfair and unhealthy competition.

* "The Tata Industrial Bank . . . did as much exchange business as any exchange bank in India during the first few years of its life." Sinha's "Early European Banking in India", page 220.

508. Holding as we do, along with the authors of the dissenting minute, that the national aspiration to secure for Indians an increasing share of the financing of India's foreign trade is quite legitimate, we have no hesitation in recommending that if the joint-stock banks are unable to put up the capital required by the new Exchange Bank, and by that time have also been unable to satisfy Indian aspirations in this connection, the State must step in with all its power and influence to make the new Bank a success. We do not, however, anticipate that such a contingency will arise as we are sure that the Indian joint-stock banks will realize their responsibility in this matter.

509. The authors of the dissenting minute justify the creation of a State Exchange Bank on the ground that it will provide a suitable institution to handle the remittance operations of the Government. They add that the large amounts of remittance which Government have annually to make abroad necessitate the starting of an institution for such remittances. We cannot see the force of their argument in this matter. Even if the State Exchange Bank be started, it will not be in a position to provide the sterling resources required by Government for meeting their charges in England. We understand that one difficulty with the Indian joint-stock banks which are now operating in the exchange field is that their share of the import bills is greater than their share of the export bills. Unless the new Bank that our colleagues propose is able to oust all the existing banks from the field of foreign trade finance, we cannot see how the new Bank will be able to supply Government with the amount of remittances required without going to the other banks for a major portion of their sterling funds abroad. The reason why we recommend that the Reserve Bank should consider using the new Indian Exchange Bank as its agent for making remittance operations is that the arrangement will give the new Bank a prestige in the Indian banking system, which, with the other facilities recommended by us, such as the provision of rediscount privileges by the Reserve Bank, will enable the new Bank to compete with the existing exchange banks.

510. We do not understand the reference to the profits of the East India Company arising from the reservation of foreign exchange business to itself and the suggestion that the State should take over that business today. The position of the East India Company was entirely different from that of the present Government. The former was a trading body and as such could use the sterling resources at its disposal arising out of its trade for meeting its sterling requirements to defray the charges of the Government in England. The Government is no longer a trading body and it passes our comprehension how it would be able, through the State Exchange Bank, to find the sterling wherewith to meet its requirements in England.

511. Our colleagues say that we entertain the apprehension that the foreign exchange banks will put up a very severe competition against the Indian Exchange Bank and prevent it from carrying on its normal operations. We cannot trace anything in the report which can have given them this impression. Our object in bestowing on the new Bank certain privileges is to create confidence in the minds of the public and to direct the foreign trade business to the new institution. In this connection we should like to refer to paragraph 45 of Mr. Sarker's dissenting minute on this chapter.

512. Our colleagues have referred to the arguments in paragraph 488 of our Report against giving the new Exchange Bank a monopoly of Government remittance free from any control from the Reserve Bank. This argument had reference to a proposal that had been made at one stage of our deliberations and we do not see any point in the reference of our colleagues to this argument, when by making even their new Exchange Bank an agent of the Reserve Bank in the matter of remittance operations and by providing that the Bank should not do this business for profit they have accepted the conclusion in the paragraph of our report referred to above, in support of which these arguments were adduced by us.

513. Our colleagues state that we admit that the Yokohama Specie Bank furnishes an interesting parallel in connection with the question of the relation between the State Exchange Bank and the Reserve Bank in regard to the remittance operations. We have made no such admission and in fact, from a recent book, which we have had an opportunity to study, we do not think that the Yokohama Specie Bank furnishes any guidance in the matter. The balance of trade in merchandise in Japan has generally been adverse as shown by the following figures* :—

	(In millions of yen.)
1919	—74
1920	—388
1921	—361
1922	—253
1923	—534
1924	—646
1925	—267

With the balance of trade unfavourable against Japan, we do not see how the question of either the Yokohama Specie Bank or any other exchange bank in Japan helping the Government of Japan in their remittance programme arises.

* "Problems of Japanese Exchange, 1914-26," by Inouye, page 223.

514. Our colleagues desire that the new Exchange Bank should be started immediately without waiting for the establishment of the Reserve Bank. They admit that the new Bank would require further resources besides its share capital and that these resources may be found partly from deposits from the public and partly through advances from the Government. They have agreed with us in connection with the provincial industrial corporations that an institution working with special patronage from Government should not compete with private agencies to whose development in the future all of us are looking forward. We cannot, therefore, appreciate the satisfaction with which they anticipate the attraction of a large amount of deposits from the public by their State Exchange Bank in competition with existing joint-stock banks. As regards Government, through the Currency Department, providing additional working capital for the new institution by discounting import and export bills, this will surely lead to the addition of one more agency for the supply of currency in this country, when the present dual agency for controlling currency and credit is already a matter for standing criticism. We are, therefore, convinced that the establishment of a Reserve Bank is absolutely essential before any scheme for the creation of an Indian Exchange Bank is contemplated. We further hope, as already pointed out in paragraph 486 of our Report, that the full details of the scheme for a national institution of the kind we have in view would be worked out in consultation with the Reserve Bank, which established on the basis which we contemplate in paragraph 606 will be in the best position to give the most disinterested and valuable advice in the matter to the Government of the day.

515. Our colleagues have referred to the existence of two money markets in India at the present day and suggest the entry of Indians into the field of the financing of foreign trade as a solution for unifying the two money markets. We have referred to this subject in paragraph 578 of our Report wherein we have indicated the proper solution for the unification of the markets. That solution is not for all the existing institutions to compete in order to capture the comparatively small amount of bills that now exist in the foreign trade business but to develop, on a large scale which India's internal trade justifies, an expanded bill business which would make it easy for capital to flow from one market to the other and thereby level down all existing differences and finally lead to the abolition of two separate markets in India.

516. Our colleagues differ materially from us in recommending that the new Exchange Bank should be started immediately irrespective of the establishment of the Reserve Bank. As already pointed out, there are various other recommendations of an urgent character like the development of agricultural bills, with the resultant increase in banking facilities available to agriculture, which

are wholly dependent on the establishment of a Reserve Bank. In paragraph 48 of the note of dissent, our colleagues have said that the reason why they have thought it fit to single out the finance of foreign trade for special treatment involving the adoption of immediate steps without making similar recommendations in regard to rural, industrial and commercial finance is the presence in the field of financing of foreign trade of powerful vested interests which renders delay in taking remedial measures detrimental to national interests. We regret we are unable to agree with our colleagues in this respect, as we consider the other things to be of a *more urgent* character from the point of view of the economic welfare of the country than the needs in the sphere of the finance of foreign trade. Indeed if, in the latter sphere, the establishment of an Indian Exchange Bank by itself is likely to help a section of the community which is comparatively wealthy in securing a larger share of a profitable trade, one may be pardoned for asking the question whether that section of the community itself should not take combined action to secure the necessary remedy even if such action involves a certain amount of extra expenditure to it during the period which must elapse before it can secure the desired goal.

517. As regards the reference of our colleagues to the branch activities of the exchange banks, we note that they propose the closing down of existing branches of the exchange banks on account of the unjustified encroachment in the field of finance for internal trade to the harrassment of Indian joint-stock banks. We might point out that there are no branches of exchange banks in 6 out of the 9 provinces in India, namely Assam, Bengal, Bihar and Orissa, Bombay, Central Provinces and Madras. They cannot, therefore, be said to have encroached on Indian joint-stock banks in any of these provinces in all of which the development of banking facilities is urgently necessary. The branches of the foreign exchange banks, where they exist, serve a definite purpose, and we are not prepared to deprive the public of the facilities which it derives from their existence. We may observe that in almost all of these places certain Indian joint-stock banks have opened branches long after the establishment of branches by the foreign exchange banks. We should like to add that if the Indian public dislikes the operations of these branches of foreign banks, it can take effective action in securing that they are closed down by withdrawing its custom from them. As a contrast to the opinion of our colleagues, we would refer to Mr. Pochkhanawala's evidence before us where he has said that if foreign exchange banks prefer to open a branch at a certain place where there are no banking facilities, he would not prevent them from going there (Question 1,000).

II.—Dissenting minute of Mr. N. R. Sarker.

518. In dealing with the dissenting minute of our six colleagues at some length we have answered many of the points raised in Mr. Sarker's minute. We deal below only with a few points which have not been covered by our comments in the preceding paragraphs or in the body of the report.

519. Mr. Sarker has given a reconstructed table showing the respective shares of the exchange banks, the Imperial Bank of India and the Indian joint-stock banks of banking deposits in India. From that table he comes to the conclusion that there has been a disproportionate growth of the share of deposits with foreign banks. We do not see any justification for his including the figures of the Allahabad Bank in the heading of "foreign banks" as this bank still continues to do only inland trade business and is a bank registered under the Indian Companies Act.

520. As regards the conditions of the licence, the main points of difference between Mr. Sarker and ourselves is that we do not agree with the confinement of the business of the exchange banks to port towns and the restriction on the acquisition by exchange banks of shares in other Indian banking concerns. We have given our reasons very fully in the body of the report as to why we have not been able to accept these conditions. Mr. Sarker has referred in this connection to the proceedings of the International Conference on the Treatment of Foreigners held in Paris in 1929. We regret that for want of time it has not been possible for us to obtain and study this document. Even assuming, as Mr. Sarker says, that it was accepted in the course of discussions at that Conference that the right of international commerce would not apply to the retail trade or hawking or peddling, we wish to point out that the business of exchange banks at their upcountry branches would not seem to go against this principle, as at these places their business is connected mainly with international trade.

521. As regards the rest of the conditions, we have embodied only some of them as conditions in the licence to be granted by the Reserve Bank and have left others for a convention between the Government and the exchange banks. Mr. Sarker himself admits that it is possible that such a convention may be established in which case he thinks that the conditions need not be included specifically in the licence. It is only if Government fail to establish such a convention that he suggests that the terms should be enforced in the licence.

522. Mr. Sarker has suggested the introduction of an Exports Credits Scheme on the lines of those in force in Great Britain and Germany. This matter was never discussed before the Committee

and it is not possible for us at this stage to express any opinion on the question.

523. As regards Mr. Sarker's comments on our recommendation regarding joint banks, we have ourselves admitted in our report that no concrete scheme was placed before us. The idea of joint banks seems to be a valuable one, and has been tried in other countries, but the details must be worked out by practical financiers and only when there is a prospect of trade revival.

524. In our scheme of recommendations we have provided for the establishment of an Indian Exchange Bank only after attempts to secure for Indians their legitimate share of foreign trade finance by using the existing machinery are not crowned with success. We have, therefore, not thought it necessary to fill in the details of the new institution and have left them to be worked out in consultation with the Reserve Bank with due regard to the circumstances prevailing at the time of the creation of that Bank. We accordingly think it will serve no useful purpose for us to criticise the details of the Indian Exchange Bank given in Mr. Sarker's dissenting minute. We note that Mr. Sarker is of the question that the new Indian Exchange Bank should be started immediately after the establishment of the Reserve Bank and that the new Bank should not be a purely State Exchange Bank as proposed by our six dissenting colleagues.

III.—Conclusion.

525. Finally, we wish to add that we do not feel that it is necessary to make any modifications in our recommendations in this chapter. We have no doubt that when a constitution of the type envisaged by us comes into force, if the authorities find that a Reserve Bank has not been established by then, or that its early establishment is not a practical proposition, they will take such action as they may find feasible to give effect to the principes underlying our various recommendations with due regard to the degree of importance they may attach to each of these from the point of view of the economic welfare of the country as a whole.

CHAPTER XVIII.

THE BANKING SYSTEM AND THE MONEY MARKET.

The Imperial Bank of India.

526. In Chapter III, we have already described the functions and working of the Imperial Bank of India and in subsequent chapters we have made various recommendations in regard to the directions in which its present useful activities may be extended. We have suggested that :—

(i) it might use the indigenous bankers as agents for collection of cheques and bills in the same manner as it uses joint-stock or co-operative banks (paragraph 142),

(ii) it might discount the bills of indigenous bankers more freely than at present (paragraph 144),

(iii) the assistance rendered to co-operative banks in the matter of cash credits and overdrafts against sound security should be continued (paragraph 181),

(iv) it should grant to the co-operative banks remittance facilities for other than co-operative purposes on the same terms as for joint-stock banks (paragraph 182),

(v) it should continue to follow a liberal policy in the matter of granting advances against agricultural produce in godowns (paragraph 185),

(vi) the existing practice of giving loans against gold ornaments should be further developed (paragraph 252),

(vii) within safe and proper limits it should extend the assistance at present given to industries on the lines followed by joint-stock banks in Germany (paragraph 391),

(viii) under conditions explained by us it should endeavour to take its proper place among the banks financing the foreign trade of India (paragraph 483).

527. There are a few other miscellaneous matters connected with the Imperial Bank of India which we propose to deal with in this chapter. When the Reserve Bank Bill was introduced in the Assembly, another Bill to amend the Imperial Bank of India Act, 1920, was also simultaneously introduced with the object of freeing the Bank from the restrictions which on account of its hybrid nature were imposed upon it, and of modifying the

control of Government over its operations In paragraphs 34 and 35 we have referred briefly to the restrictions and to the nature of the control; but it will be convenient to give in some detail the salient features of the amending Bill of 1927 as modified by the Joint Committee of the Central Legislature. They are :—

(*a*) The Imperial Bank should under arrangements with the Reserve Bank of India act as agent of the latter in places where the Reserve Bank has no branches.

(*b*) The provision that gives power to the Governor General to issue instructions to the Bank in respect of certain matters should be repealed.

(*c*) Power should be given to the Bank to establish branches or agencies at such places in India or elsewhere as it deems advantageous.

(*d*) The Central Board should consist of the following Governors, (i) the President and the Vice-President of the Local Boards established by the Act, (ii) a Managing Governor appointed by the Central Board, (iii) a Deputy Managing Governor appointed by the Central Board, (iv) the Secretaries of the Local Boards established by the Act, and (v) such number of persons to represent any Local Boards established hereafter as the Central Board might prescribe. The Deputy Managing Governor should be entitled to vote in the absence of the Managing Governor, but the Governors specified in clause (iv) should not be entitled to vote and they will be given only the power to take part in the deliberations of the Board.

(*e*) The Bank should be authorized to make advances and open cash credits on the security of debentures issued under the authority of a Municipal Board or Committee.

(*f*) The Bank should be empowered, subject to any general or special directions from the Central Board, to make advances and open cash credits on the security of fully paid shares and debentures of companies with limited liability whether registered in India or elsewhere.

(*g*) The Bank should be allowed to advance freely on hypothecations instead of being restricted to making advances only against goods in its possession.

(*h*) The Bank should be allowed to buy and sell foreign bills of exchange.

(*i*) The existing restrictions on the borrowing of money in England by the Bank should be removed.

(*j*) The statement of the balance of the Bank should contain the particulars, and should be in the form, required by section 132 of the Indian Companies Act of 1913 and the provisions of section

136 of the same Act should apply to the Bank in like manner as they apply to a banking company.

(*k*) Various administrative defects in the working of the Bank should also be removed.

WITHDRAWAL OF RESTRICTIONS.

528. It will be seen from the above that some of the important restrictions on the operations of the Bank were left untouched. We understand that this was due to the fact that the Managing Governors of the Bank desired their retention in view of the special position which it was then contemplated that the Bank would occupy even after the Reserve Bank had been established. As stated in paragraph 484, we do not desire to fetter the discretion of the Reserve Bank in the matter of its choosing its own agents and we would prefer to give the Reserve Bank full discretion to utilize the Imperial Bank as its agents in the country until the Board of the Reserve Bank are able to make permanent arrangements with the Imperial Bank or any other bank. We have suggested that under certain conditions the Reserve Bank might give the Imperial Bank a monopoly in agency business. If, however, this is not found feasible, the position of the Imperial Bank of India would be on a par with the other joint-stock banks in the country and we would not be opposed to the restrictions imposed by the present Act and proposed to be retained in the amending Bill being withdrawn.

SPECIAL CHARTER.

529. The question has been raised whether when the Reserve Bank is created it is necessary for the Imperial Bank of India to have a special charter of its own. This suggestion is mainly based on the suspicion that a special charter would give the Imperial Bank of India a position and prestige which would be detrimental to the interests of the other joint-stock banks in the country. Certain obligations are imposed on the Indian joint-stock companies by the present Indian Companies Act and that the Imperial Bank of India is free from these obligations under its special charter is also another consideration urged in favour of this suggestion. We have already mentioned in paragraph 527 that in the Imperial Bank of India Amending Bill as modified by the Joint Committee provision has been made for the Imperial Bank fulfilling the very important requirements of Sections 132 and 136 of the Indian Companies Act in the same way as other joint-stock banks in the country. Although we propose that the Reserve Bank of India should be given full discretion in the matter

of choosing its agents, we feel that the fact that the Imperial Bank of India has a larger number of branches spread throughout the country than any other joint-stock bank would lead the Reserve Bank of its own accord to have the Imperial Bank of India as its chief, if not its sole, agent. This agency business would include Government Treasury business and we think that it is on the whole desirable to continue the special charter with suitable amendments.

Opening of branches.

530. In the Reserve Bank Bill of 1927 provision was made for the grant of certain interest-free balances to the Imperial Bank of India with a view to encourage the extension of its branch banking activities in the interior. It was urged at the time that the only possibility for indigenous banks to develop their business was to open branches where the Imperial Bank of India had none, and that this possibility would be shut out if the Government gave any special concession to the Imperial Bank of India which was not given to the other banks. The force of this argument appears to have been appreciated by the Joint Committee which recommended the omission of this provision in the amended Bill. We are in full sympathy with the aspirations of the Indian joint-stock banks and we consider that any facility given by the Government or by the Reserve Bank, when it is established, should be freely available not only to the Imperial Bank of India but to all other joint-stock banks in the country. With this end in view, namely, to encourage the opening of branches of joint-stock banks, we have elsewhere recommended that the Reserve Bank may place for the first five years with every new branch opened by an approved joint-stock bank at a centre, where there are no joint-stock banks, a deposit of such sum on such terms as it may consider necessary.

531. In their separate report the foreign experts have referred to the recommendation in the preceding paragraph, with which they do not agree on the ground that it would be contrary to the principles on which the policy of a Reserve Bank should be based. We have pointed out that the provision for giving assistance to the Imperial Bank of India in order to enable it to open branches in the interior was rejected by the Joint Committee of the Central Legislature not on the ground of any opposition to the principle of such assistance but because they were against giving preferential treatment to the Imperial Bank of India as compared with other banks. Our recommendation simply extends the general principle to all the joint-stock banks in the interests of extension of banking throughout India. As stated in Chapter XXIII in connection with the policy of the Reserve Bank and its relations to other

banks, a great deal must be left, in matters of this kind, to the discretion of the management of the Reserve Bank.

INDIANIZATION OF STAFF.

532. The question of Indianization of the staff of the Imperial Bank of India has been pressed before us. The Bank has already inaugurated a scheme of training young Indians which is described in the evidence of the Managing Governor of the Imperial Bank of India. We have been told that staff officers of the Bank are now to an increasing extent being promoted from the Assistants trained in the Bank under the probationers' scheme and the following figures have been supplied showing the direct recruitment in London and from the staff in India during the last six years :—

	Recruited from London.		Recruited from the staff in India.
	European.	Indian.	Indians.
1925	32	1	13
1926	6	1	1
1927	3	1	1
1928	8	1	4
1929	6	..	7
1930	..	..	1

In paragraph 483, we have recommended that if the Imperial Bank of India is given, in connection with its entry into the field of foreign trade finance, the special concession of being appointed the sole agent of the Reserve Bank at certain places in India, no further recruitment of non-Indians to the staff of the Imperial Bank should be made except in special cases with the approval of the Finance Minister of the Government of India. While we consider such a condition justifiable in connection with the grant of any special concession to the Imperial Bank of India, we do not think it necessary to make any recommendation to cover the *interim* period before the establishment of the Reserve Bank. If the privilege of the free use of the Government balances and other concessions now enjoyed by the Imperial Bank of India

is a consideration in favour of the proposal of further Indianization as urged by witnesses, it has also to be remembered that these privileges are not given without a *quid pro quo* and that the Imperial Bank of India has to incur a large expenditure on account of the staff employed for carrying on the Government Treasury business. We should at the same time like to add that the question of Indianization stands on its own merits as a matter of policy in India.

533. Several of our members have urged that the appointment of the staff is a matter which should in all circumstances be left solely to the discretion of the Central Board, and consider that their hands should not be fettered in making appointments to the superior staff. In view of the arguments produced in the Report of the External Capital Committee, however, we consider that the concessions we recommend and which are referred to in the previous paragraph, justify our proposals regarding not only a majority of Indian directors but a definite restriction on the further recruitment of non-Indians to the staff.

CHAPTER XIX.

THE BANKING SYSTEM AND THE MONEY MARKET—*contd.*

COMMERCIAL BANKING.

General.

534. In the exact sense of the word, commercial banking in India is undertaken by the Imperial Bank of India, the foreign banks commonly known as exchange banks, the Indian joint-stock banks and many of the indigenous bankers. We have dealt in Chapter XVIII with certain operations of the first of these institutions, and in Chapter VIII we have dealt with the last-named institution. In Chapter XVII we have dealt with the operations of the exchange banks, mainly in connection with the financing of foreign trade. The remarks in this chapter refer chiefly to the operations of Indian joint-stock banks, though they also apply in certain cases to similar operations of the other institutions.

535. In India, as in almost all other principal countries of the world, commercial banks are engaged mostly in the distribution of credit. The right of issuing notes is denied to them, this latter function being the privilege of the State in India and of the Central Banks in the other principal countries excepting Canada, where commercial banks still possess the right of issuing notes, and certain other countries where the power is in the process of transfer to a Central Bank. For the purposes of their lending operations, the banks have to depend almost wholly on the resources which they can secure by attracting deposits from people who have money to spare for the time being, or by obtaining loans against their investments of various categories. Nevertheless, commercial banks render a most valuable service to the economic life of the community by mobilising the banking resources to which we have referred and making them available to the best interest of the community.

536. For reasons which we have stated in Chapter XVII, Indian joint-stock banks practically take no part in the financing of India's foreign trade from the stage at which exports leave her ports, or to the stage at which imports arrive thereat. We have in that chapter made certain suggestions for increasing the participation of Indian joint-stock banks in this business.

537. Following the orthodox practice of English banks, Indian joint-stock banks, generally speaking, give loans for short periods

and against certain forms of security. The result is, as has been brought out in Chapter XVI, that they do not take any material part in the financing of industries, unlike the German or Continental banks in Europe. In that chapter, we have made certain recommendations on the subject.

Development of Deposits and of Banking.

538. From what has been stated in paragraph 535 it will be evident that the development of commercial banking depends mainly on the flow of deposits. On a comparison of the figures of deposits of the banking institutions from the year 1919 to the year 1928, the experts were led to draw the inference that despite the establishment of new banks and branches deposits have not developed and that the country accordingly is not "bounding with untapped banking possibilities". It might appear, at first sight, from the following table of deposits with the various classes of banks for the ten years ending 1928, that there is not much scope for the development of deposits :—

Year.	Imperial Bank of India (Private deposits.)	Exchange banks.	Joint Stock banks.	Total of all banks.
	In crores of rupees.			
1919	68	74	61	203
1920	78	75	73	226
1921	66	75	80	221
1922	57	73	65	195
1923	74	68	48	190
1924	77	71	55	203
1925	78	71	58	207
1926	74	72	63	209
1927	72	69	64	205
1928	71	71	66	208

It is not, however, correct to infer from these figures that the banking resources of India are limited. The following factors have to be taken into account :—

(1) The number of principal towns which possessed a bank or a branch or agency of a bank was only 185 in the year 1919. In

1926 it was 339, showing an increase of eighty-three per cent, but nevertheless a very insignificant increase, considering that the number of towns in India is about 2,300. It is true that the investigations of the Provincial Banking Enquiry Committees indicate that there is little hoarded wealth in the country held in precious metals other than investments in ornaments and jewellery. It is obvious, however, that the absence of banking facilities at most of the urban centres must result in the temporary locking up with individual possessors of large sums of money which may be required for expenditure later but which, if commercial banks were in existence at such centres, would be made available for the development of credit facilities, particularly to meet seasonal requirements. We have not overlooked in this connection the existence of indigenous bankers, but it appears from the reports of the Provincial Banking Enquiry Committees that it is not the universal practice of these bankers at all places in India to accept deposits from the public. Considering the fact that the vast bulk of the people live not in towns but in villages, the absence of banking facilities to the people at large becomes all the more noticeable.

(2) The deposits with co-operative central banks and banking unions on 30th June 1930 were Rs. 18½ crores. Further, in spite of various restrictions on investments in the postal savings banks and post office cash certificates, the figures of these accounts increased from Rs. 27 crores in 1921-22 to Rs. 72 crores in 1929-30. These facts, together with the increase in Government borrowings by short-term loans and the treasury bills, at any rate, during the last few years, indicate the existence of potential banking resources in India. The Committee recognize at the same time that to the extent that these short-term loans and treasury bills are taken up by banks out of deposits, the increase in Government borrowings by this method would not be a separate factor.

(3) Although no accurate figures of export of capital from India are available, it is generally accepted that resources which would ordinarily have remained in India have had in recent years a tendency to be remitted abroad, and this would partly affect bank deposits.

(4) The duplication of deposits has been very much less during recent years than before, the balances of the exchange banks and of the joint-stock banks with other banks and interlending among banks being very much less than what they were ten years ago. The deposit figures of 1928 would, if these balances were excluded throughout the decennium, show a larger increase during the period than is apparent.

(5) The last years of the decennium were years of trade depression, while the earlier years were of the boom period. A statistical comparison of the mere figures of total deposits, therefore, does not convey a true idea of the position. Owing to acute trade

depression, a shrinkage in the loans advanced by banks is inevitable, and the figures of total deposits must necessarily be affected to the extent of deposits ordinarily created by such loans and reflected in the returns for the years when trade is brisk. Further, it must be remembered that the bank failures during the years 1922 and 1923, particularly the failure of the Alliance Bank of Simla, must necessarily cause a temporary set-back. During these two years as many as 35 banks failed, their total paid-up capital being Rs. 469 lakhs, and their subscribed capital Rs. 1,020 lakhs. Despite these adverse factors, there has been a steady increase in the volume of deposits of the banks from the year 1900 to the year 1928, as will be seen from the following table :—

(Crores of Rs.)

Year.	Imperial Bank of India.	Exchange banks.		Joint-stock banks.		Total of all banks.
	Deposits (Private).	Deposits (in India).	Number of reporting banks.	Deposits.	Number of reporting banks.	Deposits.
1900 . .	13	11	(8)	8*	(9)*	32
1905 . .	22	17	(10)	12*	(9)*	51
1910 . .	32	25	(11)	26*	(16)*	83
1915 . .	39	33	(11)	19	(45)	91
1920 . .	78	75	(15)	73	(58)	2,26
1925 . .	78	71	(18)	58	(74)	2,07
1928 . .	71	71	(18)	66	(74)	2,08

* Does not include figures relating to banks with capital and reserve of Rs. one lakh and over but less than Rs. 5 lakhs.

It may be noted that the deposits received by indigenous bankers have not been included in the foregoing tables owing to want of reliable statistics; nor have we for a similar reason included the deposits received by industrial enterprises like the cotton mills in Ahmedabad and Bombay.

539. Having regard to all the factors affecting the volume of deposits, and also to the experience of banks that have opened branches in the mofussil and succeeded in attracting local capital, we are inclined to believe that there is still considerable scope for the development of banking, specially branch banking, in the country and for securing deposits in increasing amounts particularly from places where there are no banks at present. The branches of the Imperial Bank of India, for instance, have been very successful in raising local deposits. In England, partly as a result of the great development of branch banking in recent years, the deposits of the "big five" in 1928 amounted to £1,666 millions, or about 14 times their capital and reserves which totalled £116 millions. The corresponding figures for the same year of the five biggest joint-stock banks in India excluding the Imperial Bank, are respectively Rs. 49 crores and Rs. 7 crores.

540. At the same time we recognize that the establishment of a branch bank may not always be a remunerative proposition to the bank from the outset. We accordingly recommend that with a view to encouraging the opening of branches by joint-stock banks, the Reserve Bank may place, for the first five years, with every new branch opened by an approved joint-stock bank at a centre where there is no joint-stock bank, a deposit of such sum on such terms and conditions as it may consider necessary.

541. It will, however, be long before India is provided with a net-work of branches of joint-stock banks. Partly for this reason and partly to utilize the valuable knowledge and resources of the indigenous bankers, it is necessary to link up the latter with the Reserve Bank and thus to strengthen their present position and increase their utility, particularly for the purpose of providing banking facilities in areas where there is no bank at present and to classes of population whose requirements are not generally catered for by joint-stock or co-operative banks. The exact method of linking the indigenous bankers with the Reserve Bank has already been dealt with in paragraphs 139 and 140.

542. A complaint has been made in the reports of some of the Provincial Committees that the deposits collected by the commercial as well as exchange banks at their branches at certain mofussil centres are diverted to their head offices for investment in other centres at rates of interest more favourable than those obtainable at the place where the money is collected. It is also urged that even during the busy season when there is a demand for funds in these mofussil centres, the capital raised locally is not used for financing local requirements. Such a complaint is, however, often made in other countries also in a general way against the joint-stock banking system and the Bombay Committee have referred to a similar complaint made to the Committee on Agricultural Credit appointed in year 1922 to enquire

into the adequacy of credit facilities available for agriculturists in Great Britain.* The Central Areas Committee suggest that branches of all banks should be compelled by law to invest a prescribed minimum percentage of deposits and of the proceeds of bills collected by them within the specified areas in which the branches are located.† We are not in favour of imposing any such restrictions, as we consider that they will be unworkable in practice and may operate to the disadvantage of the community as a whole. We trust that when the Reserve Bank is established it will make it its policy to see that the requirements of the various parts of the country in regard to banking facilities are duly met.

543. It has been urged by some of the witnesses that the competition of the Imperial Bank of India and of the exchange banks in the domain of commercial banking is too powerful to admit of a healthy growth of the Indian joint-stock banks. It is suggested that there should be some restrictions on the opening of new branches at places where the Indian joint-stock banks have established themselves. The joint-stock banks are not themselves immune from the charge of crushing competition with another banking agency. Some of the Provincial Committees report that the position of the indigenous banker is weakening owing to the competition of the branches of joint-stock banks established in the provinces. This is, however, a natural process of evolution beneficial to the body politic, although affecting adversely individual interests.

544. The position of the Imperial Bank of India as bankers to Government gives it an advantage over the Indian joint-stock banks, but its competition with banks is not at present acute, though according to certain witnesses it is keenly felt. There is no competition at present in regard to borrowing rates and that in regard to lending rates is beneficial to the public. It has brought down the incidence of interest charges for local trade. Similarly, the branches have been instrumental in providing facilities for remittance and assisting in the easy flow of money from one centre to another as the exigencies of trade require.

545. In our opinion it is not advisable in the larger interests of the country to place any definite restrictions on the branch activities of the banks in India. In order, however, to ensure a well-ordered development and extension of joint-stock banking in the country, we recommend that any bank desiring to open a new branch in India should be required to obtain the approval of the Reserve Bank before doing so. Licences should be freely granted to the already established branches and it would be the

*Bombay, para. 164.
†Central Areas, para. 234.

business of the licensing authority to see that the provisions of the law and any other conditions specified in the licenses are complied with.

546. If banks do not find it worth while to open regular branches owing to insufficient business possibilities, we recommend for their consideration that they should open, in small centres contiguous to places where there are regular branches of banks, sub-offices or part-time branches which might develop into branches in course of time. We understand that this system has worked satisfactorily in rural areas in England. The Imperial Bank of India has also followed with success this system of serving rural areas. Within the last few years it has opened several pay offices and out-station offices at small centres of trade. Besides three local head offices and 161 branches, there are at present 3 sub-agencies, 26 pay offices and 21 out-station offices of the Bank.

547. Another suggestion worthy of consideration in connection with the question of the paying capacity of branches is economical management. It has been stated by a witness that it is one of the weaknesses of most of the Indian joint-stock banks that their cost of management is disproportionate to their earnings. It is urged that these banks have been content to be mere imitations of expensive European models and that the management is unduly influenced by a false sense of prestige in maintaining larger and more expensive establishments than is justified by the exigencies of business at different branches. It is suggested that these banks should aim at combining the reputed efficiency of the European system of banking with the proverbial economy of indigenous bankers. We have not had any material before us to form an opinion as to whether the Indian joint-stock banks are run on an extravagant scale and whether there is much scope for retrenchment. It is, however, a matter which we commend for consideration to the management of the banks.

548. A suggestion has been made that Postal Savings Banks should permit deposits being withdrawn by cheques. We propose to consider this suggestion separately in Chapter XXIV. But the development of any other banking business by these Savings Banks is not recommended at this stage, as it would make it more difficult and less attractive for joint-stock banks to open branches at suitable places. It would also interfere with the desirable development of the indigenous banker and of co-operative banks. Nor do we believe that the post office could find, on its present scale of salaries, trained men who could be trusted with the work. If higher salaries were paid, the operations of the department would become prohibitively costly.

549. We are of opinion that no obstacles should be put in the way of mergers among smaller joint-stock banks by stamp duties or taxation, and that any existing obstacles in this direction should

be removed. For example, if an amalgamated bank comes under the super-tax law, owing to the fusion of individual banks which were free from such an impost, an exemption from super-tax for a limited period is recommended. The question whether there should be any control over a bank securing a majority ownership of another bank's shares is dealt with in Chapter XXV.

DISTRIBUTION OF COMMERCIAL CREDIT: LOANS BY BANKS.

550. Having surveyed the situation as regards the inflow of banking resources, we may now examine the distribution of commercial credit. The advances given by commercial banks fall under three classes: (1) advances against tangible and marketable security lodged or pledged with the lender, (2) clean advances against personal credit with a second signature to the pro-note, and (3) clean advances against the personal credit of the borrower only. In India advances are mostly of classes (1) and (2), while in western countries, with highly developed banking systems, advances of class (3) occupy an important place.

551. Two-name borrowing is a method of raising funds encouraged by bankers in India. A promissory note endorsed by a *shroff* or *shroffs*, or by a managing agent or a firm of agents, is one of the securities beloved of bankers. In Chapter XVI we have referred to the practice of requiring the signature of managing agents, even in case of advances made on the hypothecation of stocks. The *hundi* which is still largely in vogue among merchants in India, though its use has considerably fallen off, is also in effect a two-name paper. Considering the volume of trade and the financial accommodation required by the merchants, the quantity of two-name paper acceptable to banks is, however, limited, so that the loans made by the banks on the security of such paper forms only a small proportion of the total accommodation allowed by them. The bulk of the credit is based on the tangible security of valuable assets such as bonds, shares and immovable property, or on the security of merchandise deposited either in the bank's godowns or in the godowns of the borrower under letters of hypothecation. We have heard in evidence that merchants and *shroffs* who combine trading with banking have a great aversion to the pledge of stocks. It is, however, a hopeful sign for the future that such prejudice is now slowly dying out.

552. The most favourite mode of borrowing is the cash credit account under which an advance is allowed against a promissory note signed by the borrower and secured by hypothecation of stocks. Under the cash credit system, interest is paid by the borrower only to the extent to which the credit is availed of from day to day and he can reduce his obligation at any time subject in some cases to a minimum interest clause, by which is meant that the

bank would charge its client interest on a minimum amount which is generally about one-half of the maximum limit of the drawing, power allowed to the borrower by the bank. Similarly, the bank can curtail or withdraw the facilities at any time, should it be necessary to do so. It has thus advantages for the borrower as well as the lender. We are informed, however, that the popularity of the system, stands in the way of development of bills and acceptance credit. We deal with this aspect of the question in Chapter XXI.

553. The principal reason for the difference between the practice of banks in India and in western countries to which we have referred in paragraph 550 is the tradition established by the old Presidency Banks, and later followed by the Imperial Bank of India, based on the restrictions imposed upon them under the Acts governing their operations. This tradition, which has been followed by other joint-stock banks and has been reinforced by the provisions of the Indian Companies Act, requires that for the purposes of the balance-sheet a bank's advances should be classified as secured and unsecured and shown separately in the balance-sheet. The granting of unsecured loans on properly appraised credit, instead of being regarded as ideal banking, is actually regarded by the shareholders as making for lack of safety for the bank and evidence of unsound banking. In the form of balance-sheet which we are recommending in Chapter XXV, it will not be necessary to show separately unsecured loans on personal credit; and we hope that this change will help to remove the prejudice against this form of loans.

554. Other reasons for the difference in practice mentioned above are :—

(*a*) the absence of touch and the lack of knowledge resulting therefrom between borrowers and lenders in the principal money market centres,

(*b*) the absence of the policy of 'one man, one bank' which obtains in western countries,

(*c*) the practice in India which has been materially assisted by, and has in its turn fostered, the managing agency system, and,

(*d*) the absence of institutions like 'Seyds' and 'Duns' for supplying information about the financial standing of borrowers.

NEED FOR A MORE PROGRESSIVE POLICY.

555. We consider that banks in India generally should adopt, as far as possible and consistently with safety, a more progressive policy in the matter of granting clean advances on the personal

credit of borrowers. In our opinion, the change will be facilitated by the growth of the practice 'one man, one bank'. It is generally assumed that a clean advance on a single-name promissory note, unsecured by collateral, is less secure than two-name or collateral paper. In practice, however, clean loans on personal credit of an individual of undoubted means and character turn out to be just as safe and satisfactory as any other. On the principle that in number there is strength, the banker in India usually likes to have collateral security. In the case of bazar discounts, however, although there may be more signatures than one on the paper discounted by him, he invariably looks for payment only to the regular customer who presents the two-name or collateral paper to the bank, namely, the endorser. The ordinary drawer of the note or bill is often unknown to the bank. Thus in a large number of cases the basis of credit is the banker's confidence in the individual customer, but such confidence in turn has its foundation in a knowledge of the borrower's personal integrity as well as his financial standing and his ability to liquidate the loan at the proper time. It is, therefore, on the accuracy of the banker's knowledge in this respect that the prospects of recovery of loans depend. So long as trade and industry were conducted on a relatively small scale and so long as there was an intimate touch between the banker and the borrower, the banker's personal impression, confirmed by bazar reports, formed a fairly accurate basis of loans. With the growth of large scale enterprises and increase in the number of business concerns, the banker cannot be expected to maintain such close personal touch with the borrower. It is, therefore, incumbent upon him to supplement his general knowledge by reliable information obtained through other sources. Organized agencies for supplying information concerning the financial standing of borrowers have not yet been started in India. In England Seyd's, and in America Dun's and Bradstreet's, are the principal commercial agencies which render such information available to banks. They collect data concerning the standing and credit position of corporations, firms and individuals and supply the information to their members and subscribers. The service primarily consists of reports on parties about whom the subscriber makes an inquiry and ratings of capital and credit of practically every business concern in a particular country. With new concerns springing up from day to day, it is impossible in practice to furnish up-to-date information concerning all establishments, but the information collected by these agencies and revised from time to time forms an important means of verification in most cases, and upon request the agencies also furnish special and up-to-date reports to their customers. We understand that individual banks in India at present maintain special establishments for obtaining information in regard to their customers. We recommend that the problem of pooling this information and organizing

some system of collecting reliable information, a system suited to the needs of Indian customers and conforming, as much as possible, to Indian custom, should be studied by the banks and the Bankers' Association proposed by us.

556. The most important source of credit information is, however, the balance-sheet or financial statement furnished directly by the borrower. It has been brought to our notice that the borrower in India is reluctant to divulge freely to his banker his financial position. It is not necessary for us to examine the question whether the desire to maintain such secrecy is cherished in India to a greater degree than in western countries. The Managing Governor of the Imperial Bank of India, on being questioned as to the difficulty which, we were told, hampered banks in India in this respect, observed that the information necessary to conduct a satisfactory banking business in India was available in the great majority of cases if the correct method of obtaining it were followed. He added that the success or failure of the efforts to obtain the information must depend on the ability with which the banking business was conducted. We find that the banks that require financial statements before entertaining applications for loans generally have no difficulty in obtaining them from borrowers. We are, therefore, inclined to think that wherever banks in India require information about the financial position of their borrowers, they find no difficulty in obtaining the same if they can maintain the proper touch with their clients.

557. Another method of obtaining credit information is the direct interchange between banks of their personal knowledge and experience relating to common customers. Such an interchange of information is not uncommon among the banks in India, but it appears to us that in this as in other matters more free and full co-operation is necessary. We refer later to the formation of a Bankers' Association to promote such co-operation.

Other defects in existing arrangements.

(i) *Absence of bills and bank acceptances.*

558. One of the most important defects in the present mechanism of commercial banking in India which stands in the way of the development of credit facilities is the scarcity of trade bills and the absence of bank acceptances. We have dealt with the latter in Chapter XVII. We shall deal with the former in Chapter XXI.

559. Owing to the scarcity of bills, commercial banks in India invest a relatively large proportion of their resources in gilt-edged securities as compared with bills. In Chapter XX some statistics have been given relating to the London Clearing Banks for 1928 and in Chapter XXI certain statistics have been given for the six important Indian joint-stock banks for the same year. It will be

seen from these that while the total investments of the Indian banks amounted to Rs. 20 crores against total advances aggregating Rs. 33 crores, the corresponding figures for the English banks amounted to £259 million and £945 million respectively. It is hoped that the position will improve with the disappearance of the present depression in trade, the establishment of a Reserve Bank and the development of a bill-market in India. The matter is dealt with further in Chapter XXI.

(ii) *Development of cheque habit and use of vernacular scripts.*

560. Later on in chapter XXIV we have dealt fully with the question of the development of the cheque habit and the part which banks can play in this matter. One of the factors retarding the progress of banking in this country is the paucity of persons able to read and write English, this being the language in which all organized banks carry on their business. Cheque-books and pass-books are printed in English and only a few commercial banks recognize cheques and signatures inscribed in the vernacular scripts. All the Provincial Committees have recommended that the banks should freely allow the use of the local vernaculars. The main scripts are 13, as noted below, and two to four scripts would have to be recognized in each province.

(1) Assamese; (2) Bengalee; (3) Burmese; (4) Devnagri; (5) Gujerati; (6) Gurmukhi; (7) Kanarese; (8) Malayalam; (9) Modi; (10) Sindhi; (11) Tamil; (12) Telugu; (13) Urdu.

There can be no question that the extension of banking facilities for borrowing and saving will be facilitated by the use of vernacular scripts in the various fields of banking including cheques, pass-books, and paying-in slips. The Bombay Provincial Committee state that banks sometimes require account holders, unable to write English, to sign blank cheques in advance in the vernacular, in the presence of bank officials, it being left to the account holders to fill in blanks as regards date, name and amount as necessity may arise, and that the customer is generally asked to indemnify the bank against the loss that it may be put to owing to any negligence on the part of the customer in regard to the custody of such cheques. The Committee point out that such restrictions on the use of the vernacular script must involve serious inconvenience, risk and hardship to the depositor. We are of opinion that any such restrictions are likely to defeat the object in view in recognizing the use of the vernaculars, namely, an increase in the clientele of the banks. We revert to the question of the extended use of the vernaculars, with a view to popularizing the banking and investment habit, in Chapter XXIV.

(iii) *Legal hindrances.*

561. The development of the credit system depends not only upon the growth of business and the business relation of the banker and the businessman, but also on the efficiency of a legal system designed to safeguard the rights of individuals and to enforce a prompt fulfilment of contracts. Credit at reasonable rates would be impossible if the lender has to insure against legal impediments and risks of unfair treatment in law courts. In the following paragraphs we shall deal with certain legal hindrances in the way of development of credit facilities in India to which our attention has been drawn from various quarters.

562. The Provincial Committees have called attention to several legal difficulties experienced by banks. Where property is transferable without any legal or customary impediments, it forms a sound and valid security, but where there are in operation legal enactments placing impediments against such transfers, various complications arise in connection with the banker's advances to his customer. The difficulties as regards land tenures and the provisions of the Land Alienation Acts have been dealt with by us in Chapter X. Here, we should like to refer to certain other difficulties arising in connection with the advances made by commercial banks to their customers on the security of immovable property. Certain Hindu as well as Muhammedan laws and customs relating to succession and transfer of rights put serious obstacles in the way of bankers in this country providing financial accommodation on the security of what is ordinarily considered to be a normal and reliable bank security. For instance, in a joint Hindu family governed by the Mitakshara law all the members acquire a right in the ancestral property by birth and the accrual of that right dates from conception, so that there is always the possibility of having a transaction impugned by a person who at the date of transaction was not born. In order to charge a joint estate, it is necessary that all the members of the family should join in the execution of the deed or should give their consent, or it should be made by the head of the family in his capacity as *karta* or manager. The powers of the *karta* are, however, strictly limited and a charge created by him is binding on the family property only if the loan is taken for a purpose necessary or beneficial to the family or is in discharge of a lawful antecedent debt. If a banker who grants a loan on the security of the joint estate files a suit to enforce the charge, the burden of proof that before he made the loan he satisfied himself that the loan was taken for purposes binding on the family lies on the banker. This and several other difficulties must discourage a banker in accepting property belonging to such families as a bank security.

Similarly, in the case of Muhammedan customers, the banker is confronted with doubts and difficulties. A Muhammedan has the customary power of informally binding property by verbal *wakfs* or trusts, and the defence in certain cases in a mortgage suit against a Muhammedan is that the property mortgaged was in fact the subject of religious endowment. Besides, a Muhammedan cannot dispose of by will more than one-third of his property without the concurrence of his heirs; his heirs on his dying intestate, have, therefore, to be traced to the third generation in the ascending and descending lines.

From the purely banking point of view the time has, in our opinion, arrived when the Hindu law and the Muhammedan law should be reviewed in the light of recent experience, and steps should be taken as early as possible to remove the impediments which now stand in the way of immovable property belonging to a Hindu or Muhammedan family being accepted by bankers as a normal security. We recognize, however, that other considerations may be involved; and we must accordingly leave it to the Governments concerned and their legislatures to weigh the various considerations involved and determine what action should be taken in the matter.

563. For temporary loans, mortgages created by a simple deposit of documents, without any mortgage instrument or registration, are a great convenience to the commercial community as well as to banks. Such an arrangement saves considerable amount of time, trouble and expense in registration and it also avoids publicity. Under Section 58 (*f*) of the Transfer of Property Act, however, equitable mortgages can be effected only in Calcutta, Madras, Bombay, Karachi, Rangoon, Moulmein, Bassein and Akyab and in any other town which the Governor General in Council may, by notification in the *Gazette of India*, specify. There is good reason for this restriction, as it would be dangerous to extend such facilities to places where people are illiterate and backward. The Act, however, recognizes that the facilities could be gradually extended to commercial centres where people are more advanced. Accordingly, some of the Provincial Committees have recommended that the provisions of the Act relating to equitable mortgages should be extended to other important centres of trade and commerce (both internal and port towns) throughout India. We concur in this recommendation.

564. In view of a recent ruling by the Bombay High Court in connection with bearer instruments of credit, it is now incumbent upon banks and business houses to examine all endorsements on bearer cheques. The practice that was in vogue before was based on the principle "once a bearer always a bearer", but it was held by the High Court that the character of a negotiable instrument

which was drawn payable to bearer in the first instance could be effectively altered by any subsequent endorsement. A Bill was thereupon introduced in the Legislative Assembly on 2nd September 1929 to provide that negotiable instruments, including cheques and bills of exchange which are expressed on the face of them as drawn to bearer, should not in any circumstances lose through endorsement their character of bearer instruments. The Bill was, however, rejected, as, among other reasons, it was considered desirable to await the recommendations of our Committee in the matter.

The question has since been fully considered by the Provincial Committees and some of them have recommended that the Negotiable Instruments Act should be amended so as to provide that cheques originally drawn to bearer would, despite any endorsement, retain their character as bearer instruments. We concur in this recommendation. We also approve of the recommendation made by the Madras Committee that any holder of a cheque should have the right to alter the character of the cheque from "bearer" to "order" on the face of it and that the alteration should be supported by the name of the drawer or holding endorser who makes the alteration. It should not, however, be altered by endorsement on the back of the cheque. We further recommend that *hundis* which are drawn in the form of cheques should be treated similarly. We are not, however, in favour of interfering with the existing practice in regard to other *hundis* and do not recommend that the principle "once a bearer, always a bearer" should be made applicable to such *hundis*.

565. It has been represented to us that banks need protection against frauds in connection with goods which they allow to remain in the custody of borrowers. In such cases a document known as a trust receipt is signed by the borrower who thereby binds himself to hold the goods in trust for the bank. It is an arrangement very convenient to the commercial community and is largely availed of. Owing, however, to a recent decision of the Madras High Court which arose out of a prosecution instituted at the instance of the Central Bank of India against two groundnut exporters in Madras, it is feared in banking circles that there are difficulties in the way of successfully prosecuting the executants of trust receipts without proving actual loss to the bank or likelihood of loss arising from their fraud. We are not in a position to examine the details of the commercial practice and the legal incidence attached to these trust receipts and are unable to pronounce an opinion as to whether any, and if so what, protection in addition to that already given by the existing provisions of the law is necessary and whether any remedy suggested may not lead to other legal difficulties. We, however, suggest that the legal position as regards this matter may be investigated by the legal advisers of Government and such action taken as may be considered necessary.

Remittance Facilities.

566. One of the essential services which commercial banks are expected to render to the public is to transmit money from one centre to another quickly and economically. The rate charged for internal remittance by the Imperial Bank of India is one anna per cent on sums above Rs. 10,000. In case of telegraphic transfers the telegram charges are added. The joint-stock banks are allowed a concession rate of half an anna per cent for sums of Rs. 10,000 and over for transfers of funds between their branches. The rates charged by the joint-stock banks to their customers vary according to demand and supply. The cost of internal remittance in India is, however, according to the information supplied to us higher than in other countries and we recommend that it should be reduced as far as possible with a view to a better utilization of the resources of the country and a lowering of the rates of interest generally throughout the country. It is understood that in Canada internal remittance is allowed free by banks between places contiguous to one another, say within about 300 or 400 miles and that only a small charge is made if the distance is greater. The charge for remittance in Java is only 1 guilder for remittance of 1,000 guilders or above irrespective of the amount. It may be expected that with the facilities afforded by the Reserve Bank, when it is established, the commercial banks will be in a position to offer still better terms for remittance. If transfers of money for member banks and bankers were made by the Reserve Bank free of cost as a national service, it would, we think, have a good influence on the equalization of interest rates throughout the country. It will perhaps be not possible in the beginning to forego the charge, but it might be possible to do so at a later stage. In this connection we should like to call attention to the following observations made by the Royal Commission on Indian Currency and Finance emphasizing the need for the extension of cheap remittance facilities:

> "In any scheme of banking reform that may be planned, we trust that due emphasis will be laid on the provision and extension of cheap facilities to the public, including banks and bankers, for internal remittance."*

In the meantime we consider it desirable for the Imperial Bank of India to reduce the remittance cost to the public by extending the half-anna rate for remittance of Rs. 10,000 and above to transfers between any two banks.

The co-operative societies are the most suitable agency for the extension of remittance facilities to rural areas. We have already dealt with their difficulties and grievances in this respect and made our recommendations in Chapter IX.

* Report of the Royal Commission on Indian Currency and Finance, 1926, paragraph 215.

Want of Inter-bank Co-operation.

567. It may be expected that the establishment of a central banking institution will promote regular business relations between the different types of banks, including indigenous bankers. Something more is, however, essential to bring about closer co-operation among them. They seldom meet to discuss matters of common interest, or to agree upon lines of co-operation which could bring about an improvement of standard, eliminate elements of weakness or foster the combination of smaller banks with larger units. We are, therefore, recommending in chapter XXIII the creation of an All-India Bankers' Association, and for further details we invite a reference to that chapter.

Future of Indian Joint-Stock Banking.

568. The chequered history of joint-stock banks as briefly depicted in Chapter II, together with the difficulties they have experienced and are experiencing as brought to our notice in the evidence of our witnesses, shows that the problem of the development of joint-stock banks is one which deserves the fullest and most sympathetic consideration by Government. On the one hand they are looked upon as dangerous rivals by the indigenous bankers and on the other they frequently find themselves in opposition to the old established exchange banks and the powerful Imperial Bank of India. Placed in this position, therefore, they have been called the Cinderella of the Indian banking system and have only been able to exist amidst bickerings, suspicions and cut-throat competition. Despite all difficulties, Indian joint-stock banks have shown considerable stamina, and while the weaker banks have failed to survive, others have made creditable progress. For example, 98 institutions with 300 branches in 1921 have expanded their sphere of influence and there were 133 banks with 421 branches in 1928. This expansion in face of adverse factors reflects the persistence and enterprise of the founders and management of these institutions, and it is our desire that the efforts which have been made in this sphere of Indian banking should be recognised both by Government and by the Reserve Bank in due course. It may perhaps be stated that our proposals in this chapter are not very constructive and will not be of any great practical benefit to the joint-stock banks, but we must emphasize that the remedies must come largely from within. Joint-stock banks can learn much from their rivals on both sides; they must incorporate the economy and adaptability of the indigenous bankers with the efficiency and modern methods of the western institutions. It is a truism to say that the foundation of successful banking is good bankers, and yet the fact is sometimes overlooked. With good bankers forthcoming

the next step is the elimination of unhealthy competition and the substitution of a spirit of co-operation and joint action where such is in the common interest. We recommend elsewhere the formation of an All-India Bankers' Association which should have as one of its main objects the formulation of conventions and working principles which will prevent overlapping and what we have called unhealthy competition. We have also suggested that the expansion of branch banking should be under the guidance of the Reserve Bank. Other methods by which the development of the joint-stock banks may be assisted may be devised by the Reserve Bank, and we strongly feel that their interests must be steadily borne in mind by the authorities of that Bank when it comes into being. In the meantime we feel that the credit operations of Government should be arranged as far as possible so as to cause the minimum of difficulty to such banks either in the way of putting up the price of credit or of depreciating the value of the reserve assets of such institutions.

569. The removal of hindrances by law can do no more than create a healthy atmosphere for the development of banking. But the attainment of the desirable result, *viz.*, an adequate development of banking on the correct lines, depends essentially on the private initiative which the necessary legislative measures are intended to promote. The real problem in relation to commercial banking in this country, which must be regarded as one of paramount importance, is the very scanty development hitherto attained in this line of banking business in India. This development is essentially dependent on the extent of private enterprise that may be directed to banking business. And we cannot too much emphasize the need for a systematic propaganda that should be carried on to infuse the necessary optimism and initiative among the enterprising sections of the public. While the measures proposed by us have a particular bearing on the qualitative aspect of commercial banking, the need for the development of its quantitative aspect is also equally imperative. As has been previously stated, there were in 1928 only 339 towns in the whole of India served by either a bank or branch or an agency of a bank. This number of 339 against the total number of 2,300 towns strongly points to the need of expediting the expansion and progress of commercial banking in this country.

Points of difference with Foreign Experts.

570. In their report the foreign experts state that in so far as our conclusions could lead to the view that the commercial banks failed to provide the country with banking facilities which could reasonably be expected, they cannot agree with us. We should

like to point out that there was nothing in our provisional conclusions, which they had before them when they wrote their report, that would justify any such inference. On a study of the figures of deposits received by the banks from the year 1919 to 1928 the experts were led to draw the inference that deposits had not developed and that the country was not "bounding with untapped banking possibilities." We, therefore, considered it necessary to review the situation as regards deposits and to point out that having regard to all the factors influencing the development of deposits, it would not be correct to infer that the banking resources of India were limited and that there was consequently no scope for the development of branch banking.

571. The only other point concerning commercial banking in regard to which the experts have recorded their dissent from our conclusions refers to the absence of touch and the lack of knowledge resulting therefrom between borrowers and lenders. The experts state that although our conclusions did not clearly indicate the defects from which the absence of touch and lack of knowledge originate, they gathered from their discussions with us and from our provisional conclusions that it was the banks in the principal money markets that, in our opinion, were mainly responsible for such defects. We should like to point out that our suggestion that the banks with the assistance of the Bankers' Association proposed by us should co-operate with a view to collecting and pooling reliable information regarding the credit position of their Indian customers and conforming as much as possible to Indian custom was not intended as a criticism of the banks. It is intended merely to stress the desirability of better co-operation between the banker and his customer in this respect and to suggest the means by which their credit operations can be facilitated and developed.

It was not our intention to draw any comparison between the attitude of the Indian bank customers and those in western countries, but the experts have drawn a comparison. They observe that a great difference exists between the attitude of the two classes of customers and that secrecy about business affairs seems to be much more cherished in India than in other countries. Such an inference, we are constrained to observe, cannot be drawn from the material placed before us. Some of the witnesses, no doubt, made such a statement, but the fact is, as stated by the Managing Governor of the Imperial Bank of India, that banks following the correct method of obtaining information find no difficulty in getting it.

572. In their observations concerning Regulation of Banking the experts refer to our provisional conclusion regarding the inadvisability of placing restrictions on branch activities as being inconsistent with the recommendation made by us to make the opening of new branches of banks dependent on the approval of the Reserve Bank. Our position is that while we are not in favour

of the imposition of any specific restrictions on the opening of new branches by banks, we consider it desirable to ensure a systematic expansion of branches under the general supervision and control of the central banking institution of the country. We have expressed the opinion that licences should be freely granted and we take it that normally the Reserve Bank would offer every encouragement for the extension of branches. The experts themselves recognize that if the Reserve Bank were made the licensing authority, it "would handle the system in a sound and impartial way". They, however, record their dissent as regards the reasons given in justification of the recommendation, particularly the reason that such control is partly necessary in the interests of depositors. This particular aspect of the question has been dealt with by us in Chapter XXV.

CHAPTER XX.

THE BANKING SYSTEM AND THE MONEY MARKET—*(contd.)*.

RELATIONS BETWEEN THE VARIOUS PARTS OF THE INDIAN BANKING SYSTEM.

573. Having described the component parts of the banking system in some detail, we now proceed to consider the relations of the several parts to each other and to the money market. The first thing that strikes the observer is the absence of a central co-ordinating agency in the Indian Banking system. In the absence of such an agency, the Imperial Bank of India plays the role of a bankers' bank. There is no legal provision compelling the other banks to maintain minimum balances with it, although the exchange banks and important joint-stock banks in practice keep the major part of their cash balances with it. The Imperial Bank of India renders valuable service to the ordinary joint-stock banks by granting loans against the security of Government paper at Bank rate, although the relatively high level of the Bank rate on occasions detracts considerably from this facility. Owing to the special privileges enjoyed by the Imperial Bank of India as the Government banker, the joint-stock banks look upon it more as an unfair rival than as a friendly co-adjutor. Some of the joint-stock banks also regard the foreign exchange banks as formidable rivals on account of their large resources and their ability to attract deposits at more favourable rates of interest than the joint-stock banks themselves. The penetration of the foreign exchange banks into inland business both at the ports and in the interior is also naturally looked upon by the Indian banks as an encroachment upon the latter's proper field of activities. As regards the co-operative banks, the primary societies have no contact with credit agencies other than co-operative. The provincial and central co-operative banks, however, keep small current accounts with the Imperial Bank of India and some central banks have similar arrangements with other joint-stock banks. The provincial banks have also cash credit facilities with the Imperial Bank of India and an arrangement for overdrafts; but the latter has recently insisted that in such cases the existing cover for the cash credits in the form of demand promissory notes of primary societies should be replaced by Government securities. There is a growing feeling among the joint-stock banks and the Imperial Bank of India that the co-operative banks are beginning to compete with commercial banks and indigenous bankers in forms of banking which are outside co-operation, *e.g.*, opening current accounts, purchasing drafts and selling remittance, etc. The co-operative banks have no relations with the indigenous bankers and

money-lenders, except that some local bankers and money-lenders have recently begun to deposit monies in the central banks. Some of them are now directors in central banks, while a few act as treasurers and keep their cash balances in current account. There is no regular connection between the indigenous bankers and the money-lenders, nor does any close connection exist between the Imperial Bank of India and the joint-stock banks. Neither the *shroffs* nor the money-lenders ordinarily keep accounts with the Imperial Bank of India and if they do, it is for purposes of remittance or paying bills drawn on them by outside merchants and collected through the Imperial Bank of India. In the busy season when the supply of *hundis* exceeds the capacity of *shroffs*, a temporary link is established between the Imperial Bank of India and the joint-stock banks on the one hand and selected *shroffs* on the other who are on the approved list of these banks. The re-discount facilities given by the banks are also subject to certain maximum limits based on the financial standing of the *shroffs*. The banks advance money during these periods usually for 60 days against the *shroffs' hundis* drawn by an approved merchant and endorsed by him or by another approved *shroff*, if he is not himself on the list of approved *shroffs*. They also make advances against demand promissory notes signed by two *shroffs* on the approved list of the bank or by one *shroff* and one merchant.

574. With the banking system so loosely organized, we cannot expect the bank rate in India to have the same significance and the same influence on the money market as in other highly developed banking systems. To illustrate our remark, we may briefly describe the essential features of the London Money Market and compare it with the Indian Money Market or Markets, for, as we shall show presently, there is more than one money market in India.

575. The foundation of the London Money Market is illustrated by the following table which gives the main items on the assets side of the London Clearing Banks for some date in 1928:

Liabilities.	(In millions of pounds.)	Assets.*	(In millions of pounds.)
Capital and Reserve .	133	Cheques in Transit . . .	48
Current and Deposit accounts.	1,769	Investments . . .	259
		Bills discounted	246
		Advances to customers . .	945
		Money at Call and Short Notice .	145
		Cash	197

* These statistics and much of the information in this paragraph have been taken from Spring-Rice's Lecture in the School of Oriental Studies in November 1928. The statement is not intended to be a complete balance-sheet, but all important items have been included.

The chief source of supply of funds to the banks is current and deposit accounts. The banks do not pay interest on large portions of the balances, left with them on current accounts, but they pay interest on time deposits which is generally 2 per cent below the Bank Rate. Besides cash, the main items of liquid assets are bills discounted and money at call and short notice. Of the sum of £145 millions lent at call and short notice, about two-thirds are lent to the discount market against bills accepted by first class banks and finance houses in the City of London. These loans are either made for the night or for a week, and the latter class of loan carries interest at present at 1 per cent below the Bank Rate. The interest charged on over-night loans is comparatively low. The rate for 7 days' loans to bill-brokers is called the market rate for loans in the money market. The funds available with the bill-brokers for discounting bills consist of funds obtained from the London Money Market, *i.e.*, money lent at call or short notice by all the deposit banks and amounting in all to about £150 to 180 million; and of further resources placed at their disposal by other lenders such as the finance houses and merchants. The remainder of the money at call and short notice other than that lent to the discount market, is loaned by them to the stock exchange and for the financing of stock bought by speculators which have to be settled for fortnightly in the stock exchange market. If owing to any reason the banks are unable to lend the discount market all the money needed to finance the bills, the bill-brokers obtain accommodation from the Bank of England either by discounting approved bills at the Bank Rate, which is the official minimum rate, at which the Bank of England will discount bills, or by way of loans from the Bank of England at ½ per cent above the Bank rate.

576. The following statement gives a clear idea of the relations between the various money rates ruling in the London Money and Discount Markets:

— —	March 5, 1931.	March 12, 1931.	March 19, 1931.	March 26, 1931.
	%	%	%	—
Bank Rate	3	3	3	3
Banks' Deposit Rate . .	1	1	1	1
Clearing Banks' Rate for Money at Short Notice.	2	2	2	2
Market Rate (3 months' bills.)	2⅝	2⅝	2 1/16	2 1/16

577. We may now deal with Indian conditions. There is no fixed relation between the rate paid by banks on deposits and the Imperial Bank rate. As regards the distribution of the total assets of the various banks, the effects of stock exchange operations vary in different centres. Probably in Bombay they assume greater importance than in Calcutta. Normally, however, they do not constitute a factor which is considered of serious importance. The holdings of bills have never been on a large scale, and such bills as have been purchased have been looked upon as a definite investment and there has rarely been any question of rediscounting them. In the case of foreign bills in connection with external trade, those representing exports have at once to be sent out of the country for acceptance and are placed, if necessary, on the London Discount Market, while those representing imports are held by the banks till maturity under an interest clause. This point has been dealt with more fully in Chapter XVII. In the case of inland bills representing movement of goods internally, these do sometimes find their way into the portfolio of the Imperial Bank of India through indigenous bankers or *shroffs*. But in the absence of proper warehouse receipts it is difficult to distinguish inland trade-bills from finance bills and there is no regular organized market on a large scale for dealings in such bills.

The Bank Rate and the Different Money Markets.

578. Now let us see what Bank Rate means in India. The Imperial Bank Rate, though quoted in financial journals along with the bank rates of the Central Banks of other countries, has a different significance from those rates. Whereas the bank rates of Central Banks usually denote the rates at which first class trade bills can be discounted at the Central Bank, the rate published by the Imperial Bank of India denotes the rate at which it is prepared to grant demand loans against Government securities. From the banking point of view it is obvious that this form of security must be at least as acceptable as trade bills and one would therefore expect the offical rate of the Imperial Bank of India to be the lowest rate at which credit can be obtained. An examination of the following table will show that though there is an intimate connection between the Imperial Bank Rate and the Imperial Bank Hundi Rate, which is the rate at which it will discount or re-discount first class bills of 61 days' date, the latter has sometimes been higher and sometimes lower than the official bank rate. The table illustrates further the differences between the "Bazar" rates, the inter-bank call money rates and the official rate :—

	Bank rate.	Call money rate.		Imperial Bank Hundi rate.	Bazar Bill rate*.	
		Calcutta.	Bombay.		Calcutta.	Bombay.
	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
1st April 1925 to 1st March 1926.						
April	7	5	6½	7	10—11	11¼
May	7	5½	6¾	7	10—11	11¼
June	6	5	5¾	6½	10—10½	10½
July	5	2	3½—4	5½	10—10½	9¼
August	4	2	1¾	4½	10—10½	8⅛
September	4	1½	1½	4½	10—10½	8⅛
October	5	1¾	1	5	10½—11	9⅛
November	5	2½	1½—2	5½	10½—11	9⅛
December	5	2½	3	5½	10—10½	9¼
January	6	3½	3½	6	10—10½	9¼
February	6	4½	4¾—5	6	10—10½	9¼
March	6	5	5½—6	6	10—10½	10⅛
1st April 1926 to 1st March 1927.						
April	6	4½	5½	6	10—10½	9¼
May	6	4	4¾—5	6	10—10½	9¼
June	5	2	4	4	10—10½	7⅛
July	4	2¼	2½	4	10	7⅛
August	4	1	1	3	10	6⅛
September	4	1	1	3	10	6⅛
October	4	½	½—1	3	10	6⅛
November	4	¾	½	3	10	6⅛
December	4	¾	½—¾	3	10	6¼
January	5	4	4½	4½	10	8⅛
February	6	4¾	5—5½	6	11	9⅛
March	7	6	6½—6¾	7	11	10½

* The bazar rates are those at which the bills of small traders are discounted by *shroffs*. The rates for bills of large traders and *shroffs* are not given separately as they follow very closely the Imperial Bank *hundi* rate.

—	Bank rate.	Call money rate.		Imperial Bank Hundi rate.	Bazar bill rate*.	
		Calcutta.	Bombay.		Calcutta.	Bombay.
	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
1st April 1927 to 1st March 1928.						
April . .	7	6	6½—6¾	7	10—12	10¼
May . .	7	5	6 – 5½	7	10—11	10½
June . .	7	4—4½	6—5½	7	10—11	10½
July . .	5	1½	3	5	9	7½
August . .	4	1½—2¼	2—1¾	4	9	6¾
September .	4	2	2½—2¾	4	9	6¾
October . .	5	1½	2	5	9—10	7½
November .	5	1½	2	5	8—9	7½
December .	5	3	4—4½	5	8—9	8½
January . .	7	5½—6	5¾—6	7	10—10½	9¼
February .	7	6	6½—6½	7	10—11	10½
March . .	7	4¾—5	6—6¼	7	10—11	9¾
1st April 1928 to 1st March 1929.						
April . .	7	6½	5½—5¾	7	10—11	9¾
May . .	7	5½—5¾	5¾—6	7	10—11	9¾
June . .	7	4	5¾ –6	7	10	9
July . .	6	3	4¼—4½	5½	9	6¾
August . .	5	2¼	2½—3	5	9	6¾
September .	5	3½	3¼—3¾	5	9	6¾
October . .	5	2¼	2 –2¼	5	9—10	6¾
November .	5	2—1½	3	5	9—10	6¾
December .	6	1½	3	6	9—10	7⅞
January . .	7	4—4½	6½	7	10—12	9 3/16
February .	7	6	6¼—6½	7½	11—12	10⅛
March . .	8	6	7¼	8	11—12	10⅞

* Please see footnote on previous page.

	Bank rate.	Call money rate.		Imperial Bank Hundi rate.	Bazar Bill rate*.	
		Calcutta.	Bombay.		Calcutta.	Bombay.
	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
1st April 1929 to 1st March 1930.						
April	8	5	6½	8	11—12	11
May	7	2½	3½	7	10—11	8¾
June	6	1½	3½	6	10—11	6¾
July	5	1½	1½	5	10	5 5/16
August	5	Nil	1½	5	10	5 5/16
September	5	1½	1½	5	11	6
October	5	2½	3—3½	5	11	7 3/16
November	7	2	2½	7	11	8½
December	7	1½	4½	7	11	9 1/16
January	7	3	5	7	11	9 1/16
February	7	4½—5½	6½	7	11	9¼
March	7	5	4¾	7	11	9 1/16

579. The problem of the independence of the various money markets in India and how to make them more inter-dependent has occupied much thought, and has been the subject of long discussions with both local witnesses and with the foreign experts. The bazar rates quoted in the table are those of Bombay and Calcutta for small traders' bills, those of other up-country markets not being available. An interesting feature is that this bazar rate of Calcutta changes very rarely outside 10 and 11 per cent whereas that of Bombay seems to have some remote connection with the Imperial Bank rate and the call money rate. The fact that a call rate of ¾ per cent, a hundi rate of 3 per cent, a bank rate of 4 per cent, a Bombay bazar rate for bills of small traders of 6¾ per cent, and a Calcutta bazar rate for bills of small traders of 10 per cent can exist simultaneously indicates an extraordinary sluggishness in the movement of credit between the various markets. The Bombay Committee have also pointed out that in Bombay City alone there are the Gujerati, the Marwari and the Multani bazars with their different rates. The last mentioned is more closely connected with the Imperial Bank rate owing to the fact that Multanis do a fairly extensive business with the Imperial Bank of

* Please see footnote on page 398.

India. The other bazar rates do not necessarily bear any relation to the Imperial Bank rate.

580. The independence of the call money market is perhaps the simplest to understand, and may be dealt with first. In most money markets of the world it will be found that the rates for day to day loans are considerably lower than the bank rate. In fact, the rates represent different charges for different articles. The call money rate is the rate for surplus money seeking employment for possibly a minimum period of 24 hours, whereas the bank rate indicates the charge for the use of money for a specified period. Further, call money is repayable at the option of either the lender or the borrower, while advances against securities at bank rate are usually repayable at the option of the borrower only. The latter normally, therefore, should be higher than the call money rate. In other countries the call money rate tends towards a bank's demand deposit or current account rate while the bank rate indicates a lending rate. It is possible that one reason of this is that the supply of currency and credit is properly regulated by the Central Bank taking away surplus funds from, or supplying new money to, the market as may be necessary. But in India we find that call money is sometimes unlendable in the slack season at almost any rate when treasury bills are not available, while it may not be obtainable even at bank rates in the busy season. While the existence of differences between call rates and bank rates in normal circumstances requires no special action, it should be noted that in conditions of exceptional ease or stringency call money rates may have considerable importance in connection with exchange considerations. Any special action in the matter will be one of the functions of a Central Bank under modern conditions.

581. The explanation of differences between bazar rates for small traders' bills and the Imperial Bank rate is much more elusive. In India there are two money markets, namely, the Indian money market or the bazar, and the market controlled by banking institutions working on western lines. The natural link between the two markets would appear to be a steady supply of trade bills endorsed by reliable firms or discount houses which are in touch with both markets, and are able to meet the needs at one end of the merchant who prefers the elastic methods of bazar finance, and to take advantage at the other end of entry into the central money and discount markets. It has been pointed out that though the Bank of England rate controls money rates in London and large centres, there is often considerable divergence in rates in the provincial towns, and that the levelling down of rates must be a matter of slow growth and development. The ultimate ideal must be the mobilization of the whole of the floating resources of the country into one large pool into which bills can

find their way with as little delay and with the intervention of as few intermediaries as possible. At present the resources more closely resemble a stream which is constantly being blocked by obstacles preventing a free flow of bills.

582. We have referred to the fact that the banks' deposit rates in London follow the Bank of England rate automatically and that in India, although the same causes which result in a change in the Bank Rate would affect the deposit rate also, the mere fact that the Bank Rate has altered does not necessarily change the deposit rate. This uncertainty and this undefined position in India were brought to our notice, and we were told that such a state of affairs could not be remedied until India got a highly organized money market as in London. It was the unanimous opinion of witneses, and we agree with that opinion, that in order to organize the Indian money market on sound and modern lines it is essential that the Reserve Bank should be started as the centre of the Money Market. In fact this was the view held by the late Mr. Benjamin Strong in his evidence before the Royal Commission on Indian Currency and Finance, 1926. He said that the establishment of a Central Bank was the best means of establishing a properly functioning money market and that the absence of a Central Bank results in developments that are distortions of the money market. He referred to the chaotic position of the New York money market before the Federal Reserve Banks were established and to its better organization after their establishment.

583. A large number of witnesses before us complained of the dual control by the Government of India and the Imperial Bank of India over the Bank Rate and suggested that until a Central Banking Authority can be created the regulation of the Bank Rate should be in the hands of the Imperial Bank of India without interference from Government. The Managing Governor of the Imperial Bank of India pointed out that so long as the control of the currency is in the hands of the Government of India, it is impossible to take from them the powers over the Bank Rate which that control gives them. Those powers confer the right to expand and contract the currency, and the supply of currency is an important factor in determining the Bank Rate. He added that even if it were possible to take away the powers of Government in this matter, it is clearly to the advantage of the country that currency and credit should be managed by the two authorities working in sympathy. Even witnesses, who suggested that the Bank Rate should be entirely dictated by the exigencies of the monetary situation in India and should in no way be subject to control by the Government of India, admitted that such interference by the Government would be inevitable in emergencies arising from international considerations, and this has been the experience of England and the United States of America.

Seasonal Stringency.

584. We have referred to the powers in the hands of the Government to expand and contract the currency. There is one aspect of the exercise of the powers of expansion which has come in for a good deal of criticism. Under Section 20 of the Indian Paper Currency Act, Act X of 1923, the Governor General in Council is authorized to issue currency notes to an amount not exceeding Rs. 12 crores against bills of exchange maturing within 90 days of the date of such issue and satisfying other conditions as the Governor General in Council may by general or special order prescribe. The memorandum of procedure now in force for the issue of this additional currency is printed in Appendix III in the Volume of Appendices to the Report of the Royal Commission on Indian Currency and Finance, 1926. It is prescribed in that memorandum that this additional issue will take the form of a loan to the Imperial Bank of India against demand promissory notes with a certificate that internal bills or *hundis* which satisfy the provisions of Section 20 of the Act referred to above, and whose discounted value does not fall short of the amount of the additional issue, are held by the Bank on behalf of the Government. No issue can be made until the Bank Rate rises to 6 per cent and the entire amount outstanding at any time bears interest at Bank Rate subject to a minimum limit of 6 per cent for the first Rs. 4 crores and 7 per cent for the subsequent Rs. 8 crores. It is a universal complaint of banks and merchants in India that the fixing of arbitrary rates for the issue of additional currency against trade bills penalizes commerce and industry unnecessarily. It has, therefore, been suggested that the issue of emergency currency, by which name the additional issue is popularly called, should be at the current Bank Rate with no fixed minimum and that this procedure would be analogous to the practice in other countries where rediscount of trade bills by the central banking institution is at the Bank Rate. It is hoped that by adopting this suggestion, in practice, the control of Government over the Bank Rate would be removed and their interference would be confined within its legitimate sphere.

585. So long as the issue of additional currency is within the discretion of the Government—and this is the position under the present Paper Currency Act—we do not see how the suggestion above will have the contemplated effect. The Government might still refuse to issue currency at a particular time if, in their opinion, the Bank Rate is lower than circumstances warrant, and the only effect of such a course would be to compel the Imperial Bank of India to raise its rate.

586. It has also been suggested that the arbitrary limit of Rs. 12 crores for the issue of emergency currency has been detrimental

to trade and commerce and that it should be raised at least to 10 per cent of the total circulation. We cannot sympathize with this suggestion as in practice it has been rarely necessary for the Imperial Bank of India to avail itself of the total of Rs. 12 crores. Further, we do not think that the Government themselves regard this limit as unchangeable for all time, and in fact the original limit which was fixed at Rs. 5 crores in 1923 has been changed to Rs. 12 crores later. The necessity for any alteration in the limit of issue of emergency currency can only arise with the growth of the bill market in India and when this happens we have no doubt that the Government of their own accord will raise the limit to meet the country's demand for additional currency.

587. We must, however, record our opinion that the present conception that the seasonal monetary stringency in India is inevitable, and that this stringency must bring about a wide range of interest rates, is erroneous and can be traced to the existing defective system of control of currency and credit. It will be one of the functions of the Reserve Bank, when it is created, to keep sufficient free reserves* at the beginning of the busy season to supply the country with the currency needed during the crop-moving season without the necessity of putting up the interest rate solely on this account. The present system of issue of emergency currency under which no issue is possible except at stated rates of interest has contributed to this unsatisfactory state of affairs. With the establishment of the Reserve Bank, the supply of additional currency against proper cover would be automatic, and the question of penal rates of interest would not arise.

Government and the Money Market.

588. The operations of Government in connection with the money market have been severely criticized by several witnesses. Not only have they exercised considerable control over the Bank Rate of the Imperial Bank of India, to which reference has already been made, but both by their purchases of exchange and by their issues of treasury bills they have been able to influence the money position. The responsibility of Government towards the money market has long been recognized and opinions have been divided as to which is the better line of progress, to remove the responsibility or to improve the machinery through which it is exercised. The Royal Commission on Indian Currency and Finance, 1926, summed up the position as follows:—"The Government controls the currency. The credit situation is controlled as far as it is controlled at all by the Imperial Bank. With divided control

* By this is meant that during slack season the percentage of gold assets in the Paper Currency Reserve will be higher than the statutory requirement. During the busy season, therefore, the Reserve Bank will be able to issue more currency without violating the statutory requirement of maintaining a certain percentage of the Reserve in gold assets.

there is likelihood of divided counsels and failure to co-operate". Since the above was written there is no doubt that to a much larger extent than previously Government have assumed control of the credit situation through the medium of treasury bills. In so far as such issues have been in pursuance of their exchange policy, the matter is not within the scope of this Committee's investigations, nor are we concerned with such issues as have been for the purpose of supplementing the ways and means programme. As regards the effect on banks, it would appear that in the early stages at any rate these issues of treasury bills had the result of reducing deposits and of competing with banks for available deposits. They also resulted in a temporary contraction of credit. In some cases, the proceeds of the treasury bills were disbursed into the money markets and the contraction was counterbalanced; and the net result of the operations may be said to have caused dearer money without creating a scarcity of money. In some cases, however, where the proceeds of treasury bills were utilized to contract currency by cancelling *ad hoc* securities, there has to this extent been a scarcity of money in the market. At the present moment it is probable that treasury bills are looked upon by banks as a profitable source of investment, free from capital depreciation and readily available for obtaining cash advances from the Imperial Bank of India. The fact that Government still have to pay on an average about one per cent more than banks for deposits for similar periods suggests that these bills have not yet been accepted as an integral part of the money market at their proper value. We are informed by one of the foreign banking experts that in London the rate for such bills is usually about one thirty-second above the rate for fine bills, and the margin in India between the treasury bill rate and the open rates for time deposits, therefore, appears to us excessive. Another criticism that has been levelled against operations in treasury bills is that they have resulted in very serious depreciation in the ordinary Government Security market, not only causing heavy losses to banks and others who hold the long dated loans but at the same time creating a feeling of nervousness and reluctance on the part of investors to take up new rupee loans. It is difficult to make any definite statement as to the effect of treasury bills on investments in industrial concerns, but in so far as the operations have raised the general rate of interest on gilt-edged investment they have inevitably reacted on all investments. Both the Bengal National Chamber of Commerce and the Calcutta Stock Exchange have commented on the effects of treasury bills on existing securities, and the foreign experts also considered that banks' investments in gilt-edged securities in India formed a very high percentage of their investments compared with such percentages in other countries. They

further recommended that such investments should be largely replaced by commercial bills as soon as possible. Speaking from the point of view of banking credit as a whole, it has been stated by witnesses that the effect of recent Government operations has been to raise the price of credit and in that respect to penalize trade and industry. From the figures given in chapter III, it will be seen that the net borrowings of the Government of India since 1925-26 in the form of loans, treasury bills and cash certificates have amounted to about Rs. 140 crores, while from the table in Chapter XIX, paragraph 538, it may be observed that the figures of bank deposits have remained stationary during the last ten years. This state of affairs has made the Indian banking and credit problem still more difficult.

It is not part of our function to enquire into this matter and we, therefore, abstain from passing judgment on the Government's borrowing policy, the amount, the time and the terms of their borrowings and their effect on the general level of interest rates and on the development of trade, industry and banking. We, however, hope that when the Reserve Bank is established, Government will work in close co-operation with that Bank in the matter of their borrowing operations (including rates for post office savings banks deposits and cash certificates) and that in those circumstances there will be no room for adverse criticism of the kind referred to above.

CHAPTER XXI.

THE BANKING SYSTEM AND THE MONEY MARKET—(*Contd.*).

Bill Market—General.

589. Although it is generally accepted that from the point of view of a discount market bills in India are scarce, it must not be assumed that this is due to a lack of knowledge on the part of the people of the utility of this form of credit, or to an unwillingness to make use of it. As stated in paragraphs 22 and 23, there is definite evidence of the remittance of money by credit instruments as early as the fifth century, B.C., and the use of *hundis* as early as the twelfth century A.D. Indeed on pages 70 and 71 of his book on Indigenous Banking in India, L. C. Jain refers to legendary stories which carry back the origin of the *hundi* to a very early period of Indian history. The safety of *hundis* for travellers as compared with the risk of carrying cash must in itself have provided a good reason for the development of the *hundi* habit.

590. There is no legal definition of a *hundi*. It is governed by the custom and usages of the various localities, and only where no specific custom exists does it come under the term "bill of exchange" within the meaning of the Negotiable Instruments Act. *Hundis* are of two kinds, *darshani* or demand bills, and *muddati* or usance bills. In this respect they resemble the bill of exchange and they should certainly form a foundation for the development of a bill market on modern lines.

591. In Chapter XX we gave a statement of the joint balance sheet of several clearing banks in England showing the distribution of their assets. The following statement relating to Indian banks affords an interesting comparison. Unfortunately banks in India do not make a universal practice of showing investments in bills separately. and in several cases the figure is included in the total figure of advances. The very small figure under the heading of bills must therefore not be taken as strictly correct, though it may be assumed that the reason for not showing it separately in certain cases is that it is too small to be treated as

an independent item. The figures are for 1928, the same year as those of the English banks :—

—	The Imperial Bank of India.	*Six Indian joint-stock banks.
	Rs. in lakhs.	Rs. in lakhs.
Liabilities—		
Capital and Reserves	10,85	6,66
Current and Deposit Accounts	79,25	52,20
Assets—		
Investments	19,04	20,06
Bills	12,47	1,23
Advances	51,85	33,42
Cash	10,65	6,83

* Allahabad Bank, Bank of Baroda, Central Bank of India, Bank of India, Peoples Bank of Northern India and Punjab National Bank.

The striking feature as mentioned in the previous chapter is the relatively large proportion of assets locked up in investments. This may be due to two causes, firstly the necessity for banks in India to maintain a relatively stronger liquid position than in better developed banking countries, or secondly the attractive yield of Government securities as compared with other forms of investment. The growth of confidence in banking institutions followed by a reduction in the present investments in gilt-edged securities of banks must inevitably be a matter of time, while as already pointed out, it is hoped that in due course there will be a very definite tendency to equalization of the attractiveness of investment in Government securities and that of commercial business.

Scarcity of Bills—Other Reasons.

592. Various other reasons are suggested why joint-stock banks do not hold more of their assets in commercial bills :—

(1) Banks do not make a practice of discounting their bills with the Imperial Bank of India. A bank which rediscounts with the Imperial Bank of India feels that it runs the danger of having its credit affected in the market, as such rediscounting is considered by the

market to be a sign of weakness. There are, moreover, no facilities for the ready sale of bills in the open market.

(2) Joint-stock banks, whenever they want funds, prefer taking loans from the Imperial Bank of India on Government securities to offering their bills for rediscount with that bank. This is due to the fact that the Imperial Bank is itself a competing commercial bank and no bank would like to give away the secrets of its bill portfolio to a rival bank. Under these circumstances, Government securities are a more popular form of asset than trade bills.

(3) The Imperial Bank of India is prepared to discount only approved bills, *i.e.*, bills approved by it. It does not lay down any standards for the guidance of other banks as to what constitutes an approved bill in its opinion. The result is that joint-stock banks cannot depend on bills which they discount for their customers being rediscounted by the Imperial Bank of India.

(4) The system of cash credits in vogue in India with certain advantages to both the lender and the borrower stands in the way of a greater use of bills. In the case of cash credits, interest is generally paid only to the extent that credits are used and the bank can withdraw credits in the event of deterioration in the position of the borrowing party. It has in fact been urged by some of our witnesses that the borrower should get his assistance from banks in the form he desires and that both cash credits and bills should be developed side by side. In view of other advantages in the use of bills, such as liquidity to banks and certainty to borrowers during the period of currency of the bills, it is, however, hoped that the use of bills will become more popular, provided the banks take some initiative in this matter.

593. The following suggestions have been made for developing the bill market :—

(1) A leading Indian banker has suggested that the Indian joint-stock banks do not go to the Imperial Bank of India for rediscount of *hundis* as the latter charge the same rediscount rate to the joint-stock banks as to *shroffs* and merchants, and he has stated that if the Imperial Bank give a cheaper rate to the Indian joint-stock banks, the latter would readily take advantage of the special facility and the question of prestige

which now stands in the way of the development of the rediscounting habit would disappear. So far as the Imperial Bank of India is concerned, the Managing Governor does not think that any reduction in rates would be possible as these are already on the rock-bottom level and any reduction would place the business on a non-paying basis. He further adds that the real reason for the preference of joint-stock banks for borrowings against Government securities to rediscounting bills with the Imperial Bank of India is that the banks desire to benefit by reducing the interest they pay to the Imperial Bank, immediately they have any surplus funds, and that it is more difficult for the banks to do this if they obtain the accommodation by rediscount than by loans against Government securities.

We are not in a position to make any recommendation in regard to this point for the *interim* period before the establishment of the Reserve Bank. When that bank is established, its published rate should be the minimum rate at which it is prepared to buy or rediscount first class trade bills and promissory notes arising out of *bona fide* commercial or trade transactions of member banks and bankers, the Bank having full discretion in regard to the rates for its open market operations. To stimulate the use of bills the Reserve Bank should use its discretion to charge a higher rate for demand loans against authorized securities and it may find it useful to have a larger margin between these rates at the outset than will be necessary after the bill market has developed. Should the Reserve Bank find it necessary to discount the paper of the public without bank endorsement, it should consider whether it should not in the first few years at any rate charge a higher rate of discount to the public than that charged to member banks and bankers.

(2) The representative of the Ahmedabad Millowners' Association has pointed out that the charges for discounting are rather high at present and that if they could be lowered it would facilitate the use of bills. The following case was quoted to illustrate this point of view. If goods were sent from place A to place B and if the bank in place A did not possess a branch in place B, a higher commission had to be paid to the bank at place A to discount the bill, as that bank not having a branch at place B had to get the business done through another bank to which a commission had to be paid. He has suggested that this difficulty

can be solved if there were some arrangements between the different banks whereby business could be done by charging one commission only by the bank which first negotiated the bill and that the establishment of a clearing house for bills in all provincial capitals would secure this end. We think the simplest solution for reducing the charges in such cases is that the banks should share the single commission equally between themselves instead of charging double commission. We commend this suggestion for acceptance by banks.

(3) It is generally believed that the creation of a Reserve Bank would tend to dispel the present prejudice on the part of joint-stock banks against discounting their bills with the Imperial Bank of India. The Reserve Bank would not be a competing institution and as its normal business would be to act as bankers' bank, the development of the bill habit would be greatly facilitated. We agree that the creation of the Reserve Bank would dispel the present prejudice on the part of banks and lead the way to a greater use of bills.

(4) It has been suggested that the establishment of warehouses* in various parts of India would encourage the use of bills as it would tend to replace the finance bills now drawn by merchants and shroffs by documentary bills which would be more popular with banks. We have elsewhere advocated the wide establishment of warehouses throughout the country and the promotion of the use of the bills is one of the important considerations which have influenced us in making those proposals.

(5) The present rate of stamp duty on bills is 18 pies per cent. As the bills current in the market are generally payable at 61 days, the duty works out at 9 pies per cent per month or 9 annas per cent per annum. It is admitted on all hands that this high rate of stamp duty militates against a greater use of bills.

In this connection we recall that the Royal Commission on Indian Currency and Finance, 1926, recommended the abolition of the stamp duty on bills of exchange. We repeat that recommendation, with the further suggestion that it should be given effect to within a period of five years so that necessary steps may be taken by the Provincial Governments to make good

* Wherever the word " warehouse " is used, it includes "godown".

the revenue deficit consequent on the acceptance of the proposal. As an initial step we recommend that the stamp duty on all bills of less than one year's usance should be reduced to a uniform rate of two annas per one thousand rupees. The argument adduced by the Royal Commission on Currency and Finance that in America the abolition of the stamp duty on bills was one of the first consequences of the institution of the Reserve Bank system should also be borne in mind in this connection.

(6) Post offices should stock for sale bill forms printed in English and the vernacular in parallel. We think that this suggestion and also suggestions (8) and (9) deserve the careful consideration of the Government and the Indian commercial public. We endorse the suggestion of the Bombay Committee that the Federation of Indian Chambers of Commerce and Industry should take the question in hand and arrive at a satisfactory solution in consultation with all the bodies interested in the matter. We are sure that the Government will themselves be prepared to do everything in their power to help the Federation to arrive at such solution.

(7) In places where *hundi* business is important, an expeditious procedure for disposing of suits based on negotiable instruments should be introduced on the lines of Order XXXVII of the Civil Procedure Code. We endorse this suggestion.

(8) The noting of dishonour and protest by recognized associations of banks, *shroffs* or merchants (so as to save trouble and expense to the owner of the instrument) should be validated.

(9) Standardization of customs governing the *hundis* with a view to promote their circulation is recommended at least for particular regions, if not possible for the entire province. Some witnesses have also suggested that legislation should be passed standardizing the essential features of the *hundi* and producing a document simple in language and terms capable of circulating under definite and clearly defined conditions.

Development of the use of bills.

594. The question of developing the use of bills has been considered at some length in the memoranda submitted by witnesses and also in the oral evidence tendered by them. The various classes of transactions in which the use of bills is not widely prevalent at present and the manner in which bills might be introduced in connection with such transactions are dealt with below.

(1) *Agriculture.*

595. The finance required by the agriculturists may be divided into finance required for growing crops and that required after the crops have been gathered. In regard to crops which have been gathered, it has been recommended by the Madras Provincial Banking Enquiry Committee that agriculturists may become members of co-operative godown societies and obtain finance on agricultural produce from these societies by allowing the latter to draw a four months' bill upon themselves (owners of produce). The godown societies may, if necessary, discount the bill with the central co-operative bank and the latter in turn with other banks. The system of godown societies would greatly assist in protecting the co-operative banks against wrongful disposal of crops.

596. As regards finance required for growing the crops, the Madras Committee have suggested that it will be a long time before a suitable form of agricultural paper is developed, for there is a chance that the borrower may not grow the crop or other accidents like drought or flood may destroy the crops. In these circumstances there is no immediate prospect of rapid advance in the direction of creating agricultural paper in respect of advances granted to ryots for repayment at the harvest.

597. The Managing Governor of the Imperial Bank of India has suggested that the only way in which greater co-operation can be obtained between indigenous bankers and other banks in India is through the use by indigenous bankers of credit documents which are acceptable to the commercial banks. He has, therefore, urged that the usance bill should be encouraged for the finance of village bankers by *shroffs*. He has admitted that in the absence of satisfactory documents of title it would not be possible to identify these bills with any particular goods, but he has added that if such bills were introduced and the parties thereto showed themselves worthy of credit, they would in course of time be discounted by banks. We agree with the principle enunciated and we recommend that banks should take the initiative in the matter by suggesting this method to *shroffs* seeking accommodation from them.

598. As regards the financing of the cultivators by the village bankers, he has expressed the view that even if the difficulties mentioned above were met, bills with fixed dates of maturity would be unsuitable for use in this connection, because in the nature of things the cultivators must depend on sale of their crops in order to pay their bills. The sale of the crops would depend on the season, whereas the bill's maturity is fixed and renewals are both expensive and disliked by discounters. While we appreciate the reasoning, we think that the dates of maturity might be approximately fixed with reference to the probable date on which the crops would be brought to the market for sale and that a safe margin might always be provided.

(2) *Marketing Finance.*

599. We have referred to this subject in Chapter XIII. The Bihar and Orissa Provincial Banking Committee have made the following suggestion for the introduction and use of bills in connection with marketing :—

> "The prevalent system of marketing finance is that the export houses or commission agents of Calcutta raise money from their own banks or the Burra Bazaar and finance those up-country traders, who have no large capital of their own. These, in turn, finance the small *beparis* or village *mahajans* who buy outright from the cultivators for cash or credit already advanced. This system does not admit of a more direct contact with the central money market nor can credit be expanded as occasion requires, since none of the cash credits or book accounts extending from the Calcutta Exchange Bank to the village *bepari* are negotiable or transferable. On the other hand, if the process were reversed and the village *bepari* or the substantial cultivator could, with the help of the licensed warehouses, create a documented agricultural *muddati hundi* of six months' usance, which may be accepted by a registered *mahajan*, the bill so created could be discounted in the central money market. It will be eagerly bought by the Reserve Bank in case of necessity.".

The Managing Governor of the Imperial Bank of India has expressed the view that the main difficulty in the way of the introduction of this system is that connected with licensed warehouses. It would be necessary for stocks to be graded and those of different parties mixed together. This is a practice which Indian cultivators have consistently set their face against and is one of the main reasons of the failure of an experiment of a similar nature at Lyallpur. He has added that the management must also be an expert one which would cost money. He would like to see further experiments made in this direction in select localities as the bills created would be welcome in the money market. We wholeheartedly support this proposal and we sincerely hope that the Provincial Governments will give their earnest consideration to our recommendations regarding the establishment of licensed warehouses.

600. As regards the movement of goods from the port town to the interior, open account credit is given by the commission agents to the merchants in the interior. By co-operation between the banks and the commission agents, the latter can be made to realise that by converting the open account credit into bills they

can get credit from the banks. The commission agents will then in their turn persuade their customers to accept usance bills for the value of goods despatched. This will bring into existence bills of considerable amount both at the port towns and in the interior and a free circulation thereof between the port towns and the internal markets, as also closer connection between the banks and the indigenous bankers. Comparatively little attention has so far been paid to this branch of the trade from the banking point of view. We commend the matter for the consideration of the parties concerned.

(3) *Export and Import Finance.*

601. The suggestions regarding the introduction of rupee bills and promotion of bankers' acceptances in connection with the financing of India's foreign trade have been referred to in chapter XVII.

(4) *Bank Acceptances.*

602. While it is true that the system of cash credits has been working successfully we consider that it will be far better for the banks to invest their funds in discounting bills. Such discounting may be either by buying bills held by customers or discounting bills accepted by other banks for their customers. In regard to the first type, banks can play only a passive part but they can take a very active part in creating acceptances, once the Reserve Bank is started and is ready to stand behind the bank's signatures in the absence of demand for their acceptances. The banks could charge a small commission and could take collateral security for accepting the bills in the same way as they do now for their cash credits.

DISCOUNT MARKET.

603. The development of the discount market is an essential feature of any scheme of improvement of our monetary system. We have referred in paragraph 146 to the adoption of bill-broking as an integral part of the indigenous banker's business. Some of the indigenous bankers and their wealthy depositors might also form themselves into discounting houses under the aegis of the Reserve Bank. They could supplement their own resources as in other countries by fixed deposits from their associates and friends and credit supplied by banks. The Reserve Bank could also foster the growth of such discount houses by classing them with member banks in the matter of rediscount facilities.

604. There is little doubt that the creation of the Reserve Bank with the resultant co-ordination of the various elements of the money market and a unified control of credit and currency should

do much to develop the use of commercial bills and ultimately create an active and efficient discount market in India. The mere fact that during the busy season the Issue department of the Bank will be enabled to issue currency freely against genuine trade bills without the Bank Rate being raised to artificial levels should have a psychological effect on merchants generally and encourage them to take advantage of a cheap and convenient form of short credit. The prestige and standing offered to indigenous bankers who decide to come within the scope of the rediscount facilities of the Reserve Bank should tend to link up the indigenous money markets with the large centres where surplus funds tend to concentrate. There should no longer be any jealousy or feeling of uncertainty as regards the rediscount of bills by joint-stock banks with the Reserve Bank; and if, as we propose elsewhere, the published rate of the Reserve Bank is its rate for the rediscount of first class trade bills, which will be its lowest operative rate, the money market as a whole should gradually come to take advantage of this rate as a natural practice in lieu of the present crude method of taking advances against securities at a higher rate for shorter periods.

CHAPTER XXII.

THE BANKING SYSTEM AND THE MONEY MARKET—*(contd.)*.

THE RESERVE BANK—ITS NECESSITY.

605. We have had frequent occasions in the preceding chapters to stress the necessity for a central banking institution in India for securing the development of the Indian banking and credit system on a sound and proper basis. Some of the Provincial Committees have also recommended the early establishment of the Reserve Bank the inauguration of which was recommended by the Royal Commission on Currency and Finance five years ago. It is the unanimous opinion of all authorities on the subject that the first step to remove many of the defects in the existing system is to bring the Reserve Bank into being. The foreign banking experts went so far as to say that it is one of our principal duties to recommend that the Reserve Bank should be established in India as soon as possible and that this institution should be free from political influence. We agree with the Royal Commission on Indian Currency and Finance, 1926, that the existing system of control of currency and credit in India which is in the hands of Government and the Imperial Bank of India respectively is defective, and we are convinced that no substantial progress is possible unless and until the control of credit and currency in India is placed in the hands of a single authority. We accordingly consider it to be a matter of supreme importance from the point of view of the development of banking facilities in India, and of her economic advancement generally, that a Central or Reserve Bank should be created *at the earliest possible date*. The establishment of such a bank would by mobilization of the banking and currency reserves of India in one hand tend to increase the volume of credit available for trade, industry and agriculture and to mitigate the evils of fluctuating and high charges for the use of such credit caused by seasonal stringency.

PROPER TYPE OF RESERVE BANK.

606. The question whether the details of the constitution of a Reserve Bank came within the purview of our committee has been open to doubt from the outset of our deliberations, and the Chairman has been asked to give a ruling on the subject on more occasions than one. The object with which our Committee was appointed was stated in a circular letter issued by the Government of India to the Provincial Governments on the 3rd April, 1929, in

the following terms which were taken from a statement made by the Hon'ble the Finance Member in the Legislative Assembly: "The formation of a Central or Reserve Bank is desirable in order that India may be equipped with a mechanism for the control of currency and credit on the lines approved by modern experience. At the same time, the Government can only proceed subject to their being satisfied as to two conditions: first, that the organization of the Bank is securely settled on sound lines, and secondly, that there is a measure of general support among the representatives of public opinion for the proposals. Full advantage should be taken of any interval which may occur before these conditions are fulfilled and the time is again ripe for reviving the proposals for a Reserve Bank by inaugurating an enquiry into the general banking organization of the country which is intimately connected with the question of a Central Bank. For a Central Bank is essentially the crown of the whole structure of banking in its widest sense, and if it is well designed to meet the practical requirements of the country it must be adapted to the banking organization of the country on which it should rest. Viewed from this angle, a banking enquiry will be of value in throwing light on the actual situation throughout the country and in instructing public opinion as to the main requirements."

On the other hand, the terms of reference to our Committee did not specify its functions in regard to the Reserve Bank. In February last, when the proceedings of the Indian Round Table Conference were published in India, it was found that there had been general agreement at that Conference that "efforts should be made to establish on sure foundations and free from any political influence, as early as may be found possible, a Reserve Bank which will be entrusted with the management of Indian currency and exchange", and that His Majesty's Government had expressed the view that this matter was one of those which "will have to be provided for somehow in the new Constitution". In view of these various considerations, it was ruled by our Chairman that it was for the framers of the Constitution to decide what steps should be taken to ensure the condition envisaged that the Bank should be on a sure foundation and free from any political influence, and he ruled out of discussion by our Committee questions bearing on that point, *e.g.*, (1) whether the Bank should be a State Bank or a Shareholders' Bank, and (2) what should be the composition of its directorate. In order, however, to arrive at a basis on which our recommendations about the working of the Reserve Bank and its relations with the Money Market should be formulated, we unanimously agreed to proceed on the following assumptions:—

(1) The Reserve Bank would be established by an Act of the Indian Legislature,

(2) The capital of the Bank would be provided by the State,

(3) The Bank would be under Indian control, and

(4) The Bank would be free from interference from executive or legislature (Indian or British) in its day-to-day administration.

It must be clearly understood that all the recommendations in our report which envisage the establishment of a Reserve Bank are based on these assumptions. We may add in this connection that the foreign experts have expressed the opinion that a Reserve Bank can be run on sound lines whether it is formed as a State Bank or as a Shareholders' Bank, provided that the Bank is kept free from interference by Government in its daily administration.

SOME PROVISIONS OF THE RESERVE BANK BILL OF 1928 EXAMINED.

607. The two principal tasks of the Reserve Bank will be to maintain the international value of the rupee and to control the credit situation in India, which would include the rate of interest at which credit would be available to trade and industry. It has been suggested to us that the provisions of the Bill of 1928 are not quite satisfactory so far as the Reserve Bank's task of regulating internal credit is concerned. This difficulty arises from the fact that the Bill does not take fully into account the absence of a well developed and extensive bill market in India. We have used the word *'fully'* advisedly, for the framers of the Bill have recognized that the financing of industry and the movement of crops in India is at present effected mostly by cash credits and not by bills. They realized that it would be difficult for the Reserve Bank to assist other banks in providing the necessary credit facilities without some temporary provision for permitting it to grant loans and advances on the security of the promissory notes of scheduled banks, supported by documents evidencing title to goods which have been transferred, assigned, hypothecated or pledged to any such bank as security for credit granted for *bona fide* commercial or trade transactions or for purposes of financing seasonal agricultural operations or the marketing of crops. We consider that this provision is only a partial remedy to the existing situation. In the first place, the number of member banks would at the outset be only about 60, of which 18 are exchange banks mostly unconnected with argiculture and inland trade. In the second place, it is not inconceivable that owing to the absence of an extensive bill market in India which would ordinarily enable the Reserve Bank to enforce its credit policy by its operations therein, the Reserve Bank may have to

follow instead of controlling the member banks with regard to the interest rates in the country in the busy season. As a result, the position in India after the Reserve Bank is established may differ little from what it is to-day, and the wide range of interest rates caused by the slack and the busy seasons may still continue to the detriment of the economic life of the country. Owing to these considerations, we agree with the foreign banking experts that additional provision should be made in the Reserve Bank Bill enabling the Bank to make loans and advances on the security of movable goods, wares and merchandise, as well as against the warehouse warrants or warehouse receipts representing such goods. This provision may perhaps be criticized as likely to encourage too much competition between the Reserve Bank and the other commercial banks in the country. We agree that the Reserve Bank should not ordinarily compete with commercial banks for profit, but in our opinion it ought to be in a position to operate in the open market and compete with the commercial banks so as to make its policy effective. We contemplate that the Reserve Bank need not necessarily avail itself of this provision to a large extent, but the mere fact of its existence will enhance its influence on the level of interest rates. We might also draw attention to the fact that a number of the recent modifications to the South African Reserve Bank Act have been on the above lines, the object being to render its working more effective.

608. We have mentioned in paragraph 430 that we contemplate the introduction of rupee import bills as a possible and desirable future development of the Indian bill market. When this development takes place, we think it necessary that the Reserve Bank should have powers to purchase, sell and rediscount such bills. The provisions of the Bill of 1928 confined the business of the Reserve Bank to the purchase, sale and rediscount of bills of exchange and promissory notes *drawn and* payable in India. As rupee import bills would be drawn out of India, we suggest that the Bill should be amended so as to omit the condition that the bills should be drawn in India.

609. We have considered the provision in the Bill which restricts the total holding by the Reserve Bank at any time of agricultural bills of a maturity longer than three months to one-fourth of the total face value of all bills including promissory notes, purchased or rediscounted by the Bank up to that time. It has been suggested to us that this limit, coupled with the comparatively small volume of bills in the Indian Money Market in the present circumstances, may operate as an undesirable impediment in the way of the Reserve Bank giving the full financial assistance required by agriculture which is the chief industry in India;

and that it may be useful to have another over-riding maximum so fixed as to take into account not only the need for liquidity of the Reserve Bank's assets but also the essential requirements of agriculture. We have recommended a scheme for bringing a large body of indigenous bankers into the Reserve Bank system. If that scheme were carried out, we believe that a greater proportion of the agricultural population would come within the purview of the Reserve Bank's operations than would be the case if the Reserve Bank dealt only with the joint-stock banks and provincial co-operative banks as contemplated in the Bill. Conditions for extension of the bill market would then be created, and the indigenous bankers, whose knowledge of local and trade conditions must form the basis of good bills, would be enabled to provide the commercial banks and the Reserve Bank with a gradually increasing number of genuine trade bills. Partly for this reason and partly because we have suggested the extension of the powers of the Reserve Bank to grant financial facilities not only by purchase and rediscount of bills but also by grant of advances against goods and warehouse receipts, we do not think that the limit prescribed in the Bill of 1928 will operate as a handicap to the agricultural industry when the arrangements contemplated by us have fully been developed. To avoid any possible inconvenience to the industry at the early stages of the proposed arrangements, however, we recommend that if the limit prescribed in the Bill of 1928 is at any time less than the share capital of the bank, the total face value of agricultural bills or notes purchased or rediscounted by the Reserve Bank may, at the discretion of that Bank, go up to the amount of the share capital.

610. As India is predominantly an agricultural country it was provided in the Bill that, while commercial bills purchased or rediscounted by the Reserve Bank should be such as mature within 90 days of the date of such purchase or rediscount, the currency of agricultural bills might extend to 6 months. It was expected that this provision would enable the Reserve Bank to give all the facilities required in connection with seasonal agricultural operations or the marketing of crops. We consider the provision adequate so far as the marketing of crops is concerned. But seasonal operations in India extend over a longer period than six months. On the other hand, as ordinarily the Reserve Bank will only purchase or rediscount agricultural bills from member banks, it might be expected that these banks would hold the bills for a certain period of their currency. Taking both these considerations into account, we recommend that the period of six months for agricultural bills in the Bill of 1928 may be extended to nine months as being more suitable to meet the conditions of agriculture in India.

611. There are a few miscellaneous amendments which we have to suggest in the Bill :—

(i) The Bill empowers the Reserve Bank to act as agent for the Secretary of State in Council, the Governor General in Council or any local Government in regard to various transactions. We consider that the Bank should also be permitted to act as agent for any Indian State that may desire to utilize the services of the Reserve Bank for that purpose.

We have considered in this connection a suggestion that has been made to us that the Reserve Bank should be permitted to act as agent for member banks in the same way as it is empowered to act as agent for central and provincial Governments; and that, in addition, the Reserve Bank should also undertake to act as agent in any place outside India for member banks and to sell foreign currency or pay out in foreign currency on their behalf, to collect bills in foreign countries and to accept against adequate securities in India bills drawn by or on behalf of member banks. The foreign banking experts have objected to this extension of the task of the Reserve Bank in the following extract from their report :—

> "We fully agree with the opinion expressed by the Joint Committee of the Legislative Assembly, to which the Reserve Bank Bill was referred. In their report of the 18th August 1927, they wrote on page 3 against sub-clause (13) :—
>
> > 'We think that the power of the Reserve Bank to open accounts and act as agents of other banks should be restricted to central banks which are the principal currency authorities in their respective countries and among which we include the Federal Reserve Banks in the United States of America.'
>
> We consider this the right conception in accordance with the practice in most other countries. Especially with regard to the foreign exchange business of the Reserve Bank, we see great objections to the Bank acting as agent for member banks, using part of its holdings in foreign currency and doing acceptance business on behalf of these member banks. The activities of the Reserve Bank in the field of foreign exchange must on principle be restricted to what is necessary for performing its principal duty, *i.e.*, to keep the currency of the country at par with gold, in any case at a value between the upper and the lower gold points. It would be dangerous in our

> opinion to encroach upon this principle by inducing the Reserve Bank to place part of its foreign assets at the disposal of member banks on behalf of their foreign exchange business."

We agree with the foreign experts that the proposed extension of the activities of the Reserve Bank is undesirable. We wish to add the additional reason that both the Royal Commission on Indian Currency and Finance, 1926, and the Bill of 1928 contemplated the Reserve Bank operating in the open market only when such a course was necessary for making its currency and credit policy effective, and that to impose an obligation on the Bank to carry out agency functions on behalf of member banks might make it necessary for the Reserve Bank to be in the market even when it was not required for the enforcement of its policy. The fact that the suggested provision will only be permissive does not take away the force of our argument.

(ii) Provision has been made in the Bill enabling the Reserve Bank, subject to certain limitations, to purchase and sell securities of the Government of India or of a local Government or of a local authority in British India. In addition to these securities we recommend that if any securities were issued with the guarantee of Government both for capital and interest, the question of including them in the list of securities eligible for purchase and sale by the Reserve Bank should be considered.

(iii) The powers of the Reserve Bank to borrow money are limited to the amount of the share capital of the Bank. We think the limit should be extended to the share capital and the reserve fund of the Bank.

Schedule of Member Banks.

612. The Bill of 1928 included a schedule of banks that were entitled to certain rediscounting facilities from the Reserve Bank in return for certain obligations imposed on them. The most important of these obligations is that a scheduled bank should maintain with the Reserve Bank free of interest a certain prescribed balance based upon the demand and the time liabilities of the bank to the public in India. As the necessity of these deposits has been questioned in certain quarters, we give below an extract from Messrs. Premchand Roychand and Sons' Annual Market Review for 1927 :—

> "A great deal of the objection arises out of the fact that the public have not yet clearly apprehended the way in which the holdings of bankers' balances by statutes helps the Central Bank effectively to control credit.

> Expenses of a joint-stock bank in carrying on its business, apart from salaries paid to its employees, rent of offices, etc., are the loss of interest it suffers in respect of that part of its resources—called cash reserves—which is kept as a non-interest-bearing balance with the Reserve Bank or in the form of cash. The smaller these reserves are, the greater is its profit. The banks therefore aim at limiting their cash reserves to just so much as, in their opinion, must be kept in this liquid form to meet their current engagements. Supposing the joint-stock banker is satisfied that a cash reserve of 17½ per cent of his current liabilities is sufficient to meet his current engagements, and supposing that the Reserve Bank Act compels him to keep 7½ per cent of his current sight liabilities as a balance with that bank, he would hold in his vaults 10 per cent in cash. Every time the cash in his vaults decreases below this limit, he will be anxious to restore the position and that he can best do by obtaining the necessary cash through re-discounting some of his bill portfolio with the Reserve Bank, or taking some advances from it against approved securities. In no event, however, could the banker allow his cash balance to run down to anywhere near the 7½ per cent which he is compelled to keep with the Reserve Bank. The smaller, therefore, the margin between what he has to keep as a reserve balance with the Reserve Bank and the amount of the total cash reserves on which he is working, the greater the likelihood of his having recourse to the Reserve Bank for facilities and the greater, therefore, the Reserve Bank's power to enforce its policy."

Sir Osborne Smith, with whom we discussed the matter, considers that it is absolutely essential to the control of credit that the exchange banks and the other member banks should keep an adequate and substantial percentage of their time and demand liabilities with the Reserve Bank and that this is a primary reason why the central banking institution is debarred from doing ordinary banking business. We agree with these views and we do not suggest any change in the provisions of the Reserve Bank Bill of 1928 in this matter.

613. The Bill of 1928 provided for the grant of rediscount facilities to provincial co-operative banks but did not place any obligation on these banks to maintain interest-free balances with the Reserve Bank. In paragraph 140 we have suggested that a number of indigenous bankers who confine their activities to banking proper should be brought within the Reserve Banking

system and that some concession should be given in regard to the maintenance of free balances by such bankers. We suggest that these matters be provided for in the Reserve Bank Bill.

Reserve Bank Policy and Relations between the Reserve Bank and other Banks.

614. It can hardly be expected that the creation of the Reserve Bank will be universally welcomed by the existing institutions. Its privileges as Government banker, its free funds provided largely by the other banks, its potential competitive capacity, and its control of the note issue, will all tend to engender in the early stages at any rate a feeling of suspicion against it, and to delay that unification of, and co-operation between, the various sections of the money market which is the ultimate object underlying its establishment. It is essential, therefore, that from the time of its inception it should direct its policy towards gaining the confidence and willing support of the existing banks, so that if and when control may become desirable or necessary to the temporary disadvantage of any section of the market, such control may be exercised and received without any feeling of antagonism or ill-will. In the initial stages, therefore, practically everything will depend on the management of the Reserve Bank. The transfer of the Government balances from the Imperial Bank of India to the Reserve Bank, and the working of the provisions regarding maintenance of free balances by member banks with that Bank, will have to be effected with the greatest possible care in order to avoid any disturbance in the banking machinery of the country. We agree with the oft-expressed opinion of the foreign experts that the satisfactory working of the Bank must depend finally on its having first class men in charge of its affairs. In the course of our conversations with these experts there was at times some difference of opinion as to whether certain regulations should be prescribed by law or should be left to the discretion of the management. The general opinion of those experts who have had working experience of Reserve Banks in other parts of the world was to leave as much as possible to the management; in other words to allow banking practice to develop on convention rather than on legislation. Possibly we ourselves, in our anxiety to complete the detailed plans of the Reserve Bank, have suggested legislation on points which might be considered unnecessary in other countries. Our desire, however, has been to indicate further details of policy for the guidance of the authorities of the Reserve Bank, the carrying out of which will at all times call for tact, sympathy and understanding on the part of the executive. Our object is to make the existing machinery of banking and finance

run more smoothly for the general welfare of the community, from the humblest ryot to the largest industrialist, and this will not be possible if the Reserve Bank is looked upon as an enemy or a parasite which is only to survive at the cost of existing institutions. It may be inevitable at first that the Bank will be looked upon as an engrafted and extraneous body, but if its policy is directed on the right lines, it should not be long before it is regarded as a natural and healthy growth which has evolved from and for the benefit of the banking system of the country as a whole.

CHAPTER XXIII.

THE BANKING SYSTEM AND THE MONEY MARKET—*(contd.)*.

MISCELLANEOUS.

615. We shall deal in this chapter with certain miscellaneous matters relating to the Indian banking system.

A BANKERS' ASSOCIATION.

616. Witnesses have suggested that there is no co-operation between the Imperial Bank of India and the other joint-stock banks in the country, and that it would be to the advantage of the banks if a Bankers' Association were formed by the Imperial Bank on the lines of the Exchange Banks' Association where questions affecting the common interests of banks, including the Imperial Bank of India, could be considered. The Managing Governor of the Imperial Bank of India, on the other hand, has stated that there is co-operation between the Imperial Bank and the other joint-stock banks and that leading officers and directors of most of the joint-stock banks discuss in the most friendly manner matters of common interest with senior executive officers of the Imperial Bank. His own opinion is that this relationship between the Imperial Bank and the other joint-stock banks is preferable to what would exist were a Bankers' Association formed, of which all would be members. He has added that such an Association, when the time is ripe for it, should be confined to banks of more or less equal standing doing similar business and having the same problems to face. If the Imperial Bank of India was a member, that bank would, in his opinion, dominate the deliberations of the Association to an undesirable degree, with the result that the healthy development of the smaller banks by their own efforts would be retarded.

617. The United Provinces Banking Enquiry Committee have strongly urged the formation of provincial bankers' associations with branches in important towns, of which not only the joint-stock banks but the indigenous bankers should be members. The principal object of such an association would be to enable banks and bankers to arrive at a better understanding of their common problems and interests. The association would also take steps to collect information regarding the practices in various markets relating to *hundis* and so far as possible to standardize them.

Exchange Banks' Associations.

618. The Exchange Banks have organized themselves into Associations at all places and such Associations exist in Calcutta, Bombay, Madras, Rangoon and Karachi. Any bank, Indian or foreign, is eligible for membership of the Exchange Banks' Association, provided it does exchange business and is willing to subscribe to the rules and regulations of the Association. The object of the Association is to maintain a uniform standard for certain routine operations, to secure harmony in the conduct of business and to safeguard the rights of its members. The Association now comprises not only the British exchange banks but also other foreign banks but no Indian joint-stock bank transacting exchange business is at present a member of the Association.

Indigenous Bankers' Association.

619. The Bombay Committee report that there are diverse castes and classes of indigenous bankers and that in certain large centres they have their associations. Within its own sphere, each of these associations conducts its business on well defined lines and is governed by its own regulations. Questions of common interest are considered at meetings of such associations where members' differences, and disputes regarding business matters, are also settled. Members of one association have dealings with those of another, but there is no organization for the interchange of intelligence concerning the credit position of constituents, for the enunciation and adoption of policy and methods of work, or for the regulation and promotion of inter-*shroff* business. It has been suggested to the Bombay Committee by witnesses that a central association of indigenous bankers should be formed at each important centre.

All-India Bankers' Association.

620. We have already referred in Chapter XIX to the creation of an all-India Bankers' Association. Such an Association should be inaugurated as early as possible and should include as members not only the joint-stock banks but also the exchange banks, the Imperial Bank of India and the indigenous bankers. We suggest that there should be two kinds of membership, namely, full membership and associate membership. The former would be open to those banks and bankers enjoying rediscount facilities from the Reserve Bank. The latter would comprise the rest of the banks and bankers and there would be transfers from one class to the other depending upon the member's relations with the Reserve Bank. Such an association should be able to do most valuable work in the direction of improvement of standard, elimination of elements of weakness, and fostering the combination of smaller banks into larger units.

What the constitution of such an association should be may be left to the banks and bankers concerned to settle. We are particularly anxious that the indigenous banker should be brought into line with the other organized banking institutions, and we can see no better method of achieving this purpose than by including them in one single association with other banks.

621. The association which we have recommended must have an all-India centre for its operations. We realize that a central body working at its headquarters which may be removed from some of the provinces may not be able to deal with all the local problems that may arise. For this purpose, the all-India Association will probably require provincial branches to consider problems of local interest, problems of all-India importance being dealt with at headquarters. Both in the all-India Association and in the provincial branches, the system of working by committees may be found most convenient.

Exchange Brokers' Association.

622. In Calcutta there are two Exchange Brokers' Associations, one European and the other Indian, and the exchange business of the exchange banks is restricted to members of these two Brokers' Associations. When an Indian exchange broker dies, his place is said to remain vacant, but this practice, we are told, has been adopted at the desire of the Indian brokers that they should limit their numbers. In Bombay, there is only a European Exchange Brokers' Association, and in the case of Indian brokers, though they have been asked by the exchange banks on several occasions to form an Association of their own, there has been no practical result in that direction. The exchange banks, therefore, carry on their business with the European Exchange Brokers' Association and also with such Indian brokers as are on the approved lists of these banks, business being conducted in both cases under the same rules. Both European and Indian brokers are required to make a deposit of Rs. 10,000 either in cash or in Government securities, as a guarantee of ratification of contracts, and the brokers are, therefore, called deposit brokers. The exchange banks also do business with other Indian brokers not on their approved lists, but this business is strictly limited to other than exchange business.

623. We consider that the existing arrangements under which there are more associations than one at the same centre are undesirable and that all engaged in exchange-broking should have one association at each centre.

Clearing Houses.

624. The part played by the Imperial Bank of India in the conduct of the Clearing Houses has been referred to in a previous

chapter. We have received complaints that admission to the Clearing House is closely guarded and that Indian banks find it extremely difficult to gain admission. It is commonly believed that this state of affairs is due to the fact that the majority of the members of the Clearing Houses are non-Indian banks. The Managing Governor of the Imperial Bank of India has, however, assured us that the complaints were not well founded; that membership of the Clearing House involved great obligations; that applications for admission were considered on their merits; and that even in England the number of members is only 10, other banks doing their clearing through these ten banks.

625. The Managing Governor of the Imperial Bank of India has made the following suggestion in order to improve the present position :—

> "Every Clearing House should be controlled by a body which some usually call the Clearing Bankers' Association. This body should be incorporated and have its own rules and it should manage the Clearing House in every detail; it should have its own banker as should every member. In India such a body has never been firmly embodied, its functions having been largely performed by the Imperial Bank or its predecessors. There has thus been confusion and, not infrequently, it has appeared that other banks have regarded their accounts with the Imperial Bank of India as being nothing more than a part of the Clearing House and a means of settling their differences in the clearing. They appear to have overlooked that in addition to the balance required to meet their clearing differences their balances should cover the work involved as in the case of an ordinary constituent and also the cash reserve which we must maintain to meet the requirements of all their constituents. In the interests of all concerned, I think the Association of Clearing Banks should be incorporated as soon as possible. Another important reason is that in its present position the Imperial Bank might possibly be held solely liable in cases where the true liability rests upon all the members using the Clearing House."

626. It may be mentioned in this connection that the Joint Committee on the Reserve Bank Bill considered the desirability of making specific provision in the Bill for empowering the Reserve Bank to supervise Clearing House business and came to the conclusion that it was hardly necessary to make special provision for this purpose as the supervision of Clearing Houses was so clearly a business of the Reserve Bank that it would certainly

undertake the obligation without special provision. We agree with the conclusion of the Joint Committee.

We hope that in the meanwhile admission to the Clearing House will be so regulated as not to give rise to justifiable complaints on the part of Indian banks.

STATISTICS.

627. We are greatly struck by the absence of published statistics in regard to the operations of indigenous bankers. We have also had occasion to refer to the position of the exchange banks, which are not required to publish separately any figures relating to their operations in India, though figures of their Indian deposits and cash balances are as a matter of courtesy supplied to the Director General, Commercial Intelligence, Calcutta, through the India Office, in a consolidated form for all banks. The Director-General's publication, "Statistical Tables Relating to Banks in India", does not give all the details that are important from a banking point of view even in regard to joint-stock banks. Nor does it give any figures relating to banks whose capital and reserve is less than Rs. 1 lakh. The value of such figures as are published is also greatly discounted by the inordinate delay that the Department takes in bringing out the publication. For example, the Statistical Tables for 1928 were only available a few months ago. We hope that when the Reserve Bank is established, it will be one of the primary functions of that Bank to consider this question and to arrange for the compilation of proper statistics relating to the operations of banks and indigenous bankers and for their timely publication. In the meanwhile, we would suggest for the consideration of Government that efforts should be made to obtain more complete statistics for the various classes of banking institutions on the lines recommended by us in our report and to publish them as early as possible so as to avoid the inordinate delay to which we have referred.

CHAPTER XXIV.

SAVING AND INVESTMENT HABIT.

General Position.

628. The development of banking depends to a very great extent on the growth of the investment habit which in its turn depends on the earning capacity of the people, their will to save, the incentive to save, and the facilities for investment. Some of the Provincial Committees point out that the surplus left with the agriculturists, who constitute the bulk of the population, is very little even in normal years. To the few wealthy agriculturists, who have a surplus during prosperous seasons, land or jewellery has greater attraction as a form of investment than interest-bearing bank accounts, postal cash certificates, Government securities, or industrial stock. Moreover, it appears from the reports of the Provincial Committees that money-lending is fast becoming a particularly attractive form of investment to the agriculturists having surplus funds. The landed aristocracy in several places is reported to be far from solvent. In any case, its wealth, consisting mainly of land, could add little to the capacity of the capital-market of the country. The other well-to-do classes, the commercial community and the salaried and the professional sections of the middle class, have the capacity as well as the will to save and they select such forms of investment for their surplus as have special attractions for them. The salaried class is on the whole content with a low but assured income from investments and prefers to invest in post office savings banks, postal cash certificates, or Government securities. A considerable section of the well-to-do classes also prefers gilt-edged securities. We understand, however, that owing to the fall in the value of such scrip during the last few years, this form of investment has become less popular now-a-days. These cautious and conservative classes of investors also deposit their savings with banks.

629. The commercial community generally prefers to invest surplus funds in short-term deposits or treasury bills when those are available. It also subscribes to the share capital and debenture issues of joint-stock concerns. It appears, however, that numbers of merchants, and even certain classes of indigenous bankers, invest their funds largely in the purchase and mortgage of land and building. During the war boom period a good deal of money was invested by the commercial community in real estate and although there has since been a slump in the value of property, land investment, which serves as an unfailing source of credit in times of need, is still popular, but at the present time funds available for such investment are limited.

630. To the Muhammedan also, investment in land appeals the most. The Koranic injunctions forbid interest. The orthodox section of the community is, therefore, deterred from investing its funds in interest-bearing deposits or scrips. Capital appreciation is not, however, regarded as interest, so that real estate is the only means of investment for that section. We understand that individuals here and there and a small section of the mercantile and professional classes leap over or creep under the ban on the taking of interest.

631. Next to land, jewellery is a form of investment common both to the rich and the poor, the town and the country. Every year large sums are invested in ornaments and jewellery in every province. To hold small savings in jewellery is a practice rooted in ancient custom and usage. Various economic and social causes have influenced its growth. In the earlier days, lack of banking facilities, of suitable means of investment ensuring safety, and of ready realisability of savings, militated against the investment of savings for productive purposes and fostered the predilection for gold and silver ornaments. The Hindu law of inheritance applicable to certain sections of the community which debars women from receiving any share of immovable property has encouraged the practice of giving *stridhan* to women in the shape of gold ornaments at the time of marriage.

632. With the spread of education and the introduction of the banking system, however, there has been a reduction in the expenditure on ornament and jewellery. Almost all the reports of the Provincial Committees bear testimony to this fact. The Punjab Committee state that the reports they received in regard to enquiries made on the subject, show beyond doubt that "the immemorial custom of putting savings, and also a proportion of borrowings, into jewellery is beginning to weaken. For the moment the change appears more marked than it really is, since much of it is due to trade and agricultural depression. But below this strong surface current may be clearly discerned an under-current flowing in the same direction and generated by deeper and more permanent forces. Amongst the latter are education, the rising standard of living with its greater demand for money and wider facilities for investment".*

It will be seen from this extract that the predilection for ornaments need not be regarded as inevitable. It has been found to be susceptible to change and it may be expected that with the diffusion of education among the masses, extensive propaganda concerning the economic use of one's resources and the investments of one's savings, and improved banking facilities, the expenditure on jewellery would be still further reduced and a larger

* Punjab, para. 226.

share of the people's surplus rendered available for augmenting the banking resources of the country.

HOARDING.

633. One of the important factors having a vital bearing on the development of the banking wealth of a country is the tendency of its people towards hoarding. There appears to be a general impression outside India, and even among certain classes within the country, that from the very commencement of her commercial intercourse with other countries India has imported considerable quantities of gold which have disappeared into hoards. The word "hoarding" has, however, been loosely used by those who refer to the subject. No attempt is made to distinguish between the locking-up of surpluses in gold or silver bullion or coin and the industrial use of precious metals.

634. The present position in regard to hoarding in India has been investigated by the Provincial Committees. But before we refer to their findings it would be desirable to recapitulate the observations made by some of the Currency Committees and Commissions appointed from time to time. The situation as regards the character and extent of India's demand for gold was summed up correctly by the Babington Smith Committee (1919) in its report in the following words :—

> "It has frequently been alleged that an undue proportion of the world's gold supply is absorbed by India. It must be remembered, however, that the population of India exceeds 315 millions, and that the use of gold (or, alternatively, of silver) plays an important part in social ceremonies sanctioned by religion and tradition. Presents of gold or silver ornaments are obligatory at weddings and on other ceremonial occasions and this custom is supported by the practical consideration that a woman, whether Hindu or Moslem, who possesses gold and silver ornaments, or coins converted into ornaments, is entitled to hold them as her personal property. It has also always been the habit in India to use the precious metals as a store of value, and to hold savings in this form; nor, until banking and investment facilities have been extended, and the habit of using them has been acquired by the people of India, is it easy to see in what other form savings can be accumulated. We do not, therefore, consider

that the quantity of gold taken by India for all purposes in the period before the war was disproportionately large in relation to her economic conditions, and it must be assumed that so long as existing conditions prevail India will continue to require a considerable quantity of gold for the purposes named above."*

The following extract from a memorandum submitted to the Committee by Sir Stanley Reed completes the picture :—

"India is still an illiterate country whose credit and banking facilities are miserably unorganized and where the practice of holding small savings in gold and silver ornaments is centuries old. Yet its normal demand for the industrial arts, and for the satisfaction of the social customs of three hundred and fifteen millions of people, was met before the war by about ten millions of gold annually. The United States of America was reported recently to be absorbing a million sterling in gold per month for industrial purposes. Yet no one says that the United States is a bottomless sink in the matter of her gold absorption. It is stated that in England one of the most flourishing trades during the war was that in cheap jewellery, in which form the working classes invested a substantial proportion of their increased earnings. Every country in the world uses gold and silver for industrial and domestic purposes, and it induces a sense of angry injustice to find that the Indian demand for the precious metals, for precisely the same purposes, is perverted into senseless hoarding, specially when the history and conditions would justify a far larger gold absorption than the western nations with their general literacy and highly organized credit systems can claim."†

635. The External Capital Committee (1924), however, expressed its belief that India possessed a large share of potential capital, much of which was locked up in bullion and jewellery. They considered that the fact that the net imports of gold and silver since the year 1913 amounted to 482 crores was evidence that large resources were still being hoarded.‡ The Royal Commission on Indian Currency and Finance, 1926, also stressed the point that India's demand for gold was not confined to monetary purposes

* Report of the Babington Smith Committee, para. 63.

† Report of Babington Smith Committee, Vol. III, page 130.

‡ Report of the External Capital Committee, para. 8.

and that she had always absorbed gold and would probably continue to do so in large amounts for purely social uses. In recommending the introduction of savings certificates payable in gold they stated that the proposal would attract "stores of wealth, great in aggregate, and at present lying wastefully inert, to their right function of meeting the needs of India for productive capital expenditure."*

636. The question of absorption of gold by India has also recently come under the scrutiny of the Gold Delegation, appointed, in June 1929, by the Financial Committee of the League of Nations "to report upon the causes of fluctuations in the purchasing power of gold and their effect on the economic life of the nations". In its interim report we find the following reference made to the question of acquisition of gold by India :—

> "From time immemorial, the population of India has purchased very considerable quantities of gold. During the war years India was unable to satisfy her needs and she consequently effected exceptionally heavy purchases about 1924. In the last four or five years, however, her demand has dropped back to between $80—$90 million per annum—a rate of consumption rather less than that of the last pre-war quinquennium. We understand that attempts are being made to extend banking and investment habit in India, but we do not think it would be safe to anticipate any material reduction in the Indian demand for many years to come."†

637. It is the opinion of most of the Provincial Committees that the extent of hoarding in the country is greatly exaggerated. Only the United Provinces Committee states that "the average man usually insists on keeping his valuables in some secret hiding place".‡ A few other Committees also refer to the tendency amongst certain classes, such as the aboriginal and nomadic tribes and *zemindars* in rural areas, to hoard, but the evidence recorded by most of them and the information collected in the course of the intensive enquiries made in rural areas in some of the provinces show that the practice of burying precious metals underground or otherwise putting them completely out of use is disappearing and that if there is any hoarding, it is in the sense of investment in

* Report of the Royal Commission on Indian Currency and Finance, 1926, paragraphs 64 and 68.

† *Interim* Report of the Gold Delegation of the Financial Committee of the League of Nations, pages 13—14.

‡ United Provinces, para. 483.

ornaments and jewellery, the value of which per head of population is very small. There is no evidence of hoarded gold in bars in private households. Nor has any one of the Banking Enquiry Committees constituted by the Indian States had evidence of hoards of considerable magnitude in any State. Only a few reports make references to the practice of investments of savings in gold and silver, which cannot be called high.

638. Having examined the question in the light of the information available to us, despite the absence of complete and reliable statistical information, we see no justification for the widespread belief that India has absorbed and still absorbs an undue proportion of the world's gold supply and that the accumulated treasure of centuries has been lying in hoards buried deep in the ground or hidden in the houses of the people. In the days when life and property were not safe and when banking facilities were not available, hoarding was inevitable. Social and economic conditions also influenced the predilection of the people for the precious metals. Circumstances have, however, altered materially during recent years and there is little evidence of hoarding of precious metals in these days apart from the use of ornaments.

639. We have also tried to examine whether it is a fact that India does absorb more than her proper share of the world's production of precious metals. Approximate figures of the gold absorbed by India since 1493 were furnished by Mr. Joseph Kitchin to the Hilton Young Commission in a table showing the consumption of the world's gold supply and the world's stock of gold money from 1493 to 1924, based on the returns to the Bureau of the United States Mint, with his own estimates for the gaps. From this table, constructed as it was on the incomplete data available to Mr. Kitchin, it would appear that of the world's estimated total gold output valued at £4,000 millions, India has absorbed approximately £553 millions worth of gold, or 14 per cent. According to another table prepared by Mr. Kitchin and placed before the Commission, India consumed 34 per cent of the world's production of silver of which, it is estimated, nearly two-thirds may have been converted into ornaments or kept as store of wealth. Considering that India's population is roughly one-fifth of the world's population, her consumption of the precious metals can therefore hardly be said to be in excess of that of other countries.

640. The following statement shows the value of imports and exports of gold coin and bullion to and from India for a series of years, as given in the Report of the Controller of the Currency for the year 1929-30.*

* Report of the Controller of the Currency, 1929-30, page 50.

Value of Imports and Exports of gold coin and bullion for each quinquennium (average) from 1900-01 to 1924-25 and for each of the official years from 1925-26 to 1929-30.

(Lakhs of Rs.)

—	Imports.	Exports.	Net imports or exports Import—. Export +.
Average for 1900-01 to 1904-05	15,07	8,84	+6,23
,, 1905-06 to 1909-10	17,50	5,75	+11,75
,, 1910-11 to 1914-15	29,92	4,58	+25,34
,, 1915-16 to 1919-20	19,65	6,23	+13,42
,, 1920-21 to 1924-25	36,45	7,74	+28,71
1925-26	35,23	38	+34,85
1926-27	19,50	10	+19,40
1927-28	18,13	3	+18,10
1928-29	21,22	2	+21,20
1929-30	14,23	1	+14,22

India's imports for the years 1922 to 1925 were abnormal. The figures for these years should, therefore, be read with the figures for the previous years when, owing to the embargo, her imports fell. It will be seen from the table that since the year 1925-26 there has been a decline in the tendency to import gold; and we should like to reproduce in this connection the following extract from the Report of the Controller of the Currency for the year 1929-30:

> "The net imports (in 1929-30) were 14,22 lakhs, seven crores less than in 1928-29, a drop of practically one-third. Out of this, only some five lakhs were tendered to Government in accordance with the provisions of the Indian Currency Act, as compared with two and a half crores in 1928-29. As the gold tendered on private account to the Bombay Mint for refining (practically all of which is the output of Indian gold mines) amounted to 1,134,087 fine tolas in 1928-29 and 1,211,813 in 1929-30, which may be roughly valued at 245 and 262 lakhs respectively, the net private consumption of gold in India may be considered to have fallen from twenty-one crores in 1928-29 to sixteen and three-quarter crores in the year under report. The low prices realized by India's crops naturally reduced the surplus available for the purchase of the precious metals and later in the year the heavy fall in the price of silver increased to a certain extent the demand for it instead of gold. The low rates of exchange which prevailed throughout the year also made the price slightly dearer. *Apart, how-*

*ever, from these obvious factors there does appear to be a steady decline in India's tendency to import gold for private use."**

641. Mr. Kitchin's calculations and the later figures of the Controller of the Currency do not support the view that India has been absorbing more than her share of the world's supply of the precious metals; and from the evidence which has been collected by the Provincial Committees it appears that almost the whole of her consumption is used for ornaments or in the arts. According to Mr. Kitchin's calculations referred to above, no less than 30 per cent of the aggregate gold output of the world was consumed by Europe and America for non-monetary purposes. This being so, it is hardly to be wondered that 14 per cent of the world's gold supply taken by India is absorbed for similar purposes. It is necessary to mention in this connection that a portion of the gold is lost by wear and tear of the ornaments, and that the annual wastage on this account must be higher in India than in other countries owing to the peculiar customs connected with the use of the ornaments and their frequent handling, remaking and replacement for various ceremonials.

EXTENSION OF FACILITIES FOR INVESTMENT.

642. Although we doubt the existence of large hoards of wealth in this country, we should like to emphasize what we have already stated in chapter XIX on the subject of the possibilities of developing deposit-banking in this country. The few existing branches of joint-stock banks and co-operative institutions in the cities as well as in the mofussil have been successful in drawing out small savings of small people in urban as well as rural areas. A good deal, however, yet remains to be accomplished. The man in the remote interior has yet to be reached. Slender savings of small men everywhere have yet to be garnered. We have no doubt that if systematic propaganda for stimulating savings and cultivating the investment habit is carried on throughout the country and if the facilities for investment are extended, small men with savings would not be slow to respond. Savings Associations founded on the lines of similar associations in Great Britain will undoubtedly be of great assistance in carrying out systematic propaganda for the development of the investment habit and we have in the concluding paragraph of this chapter suggested the inauguration of such organizations.

643. Various suggestions have been made by the Provincial Committees as to the measures that should be taken for the extension of facilities for the investment of savings in Post Office Savings Banks, Postal Cash Certificates and Government Securities. We shall deal with some of the important proposals in this chapter.

* Report of the Controller of the Currency, 1929-30, para. 12.

POST OFFICE SAVINGS BANKS.

644. The Post Office Savings Bank is the most far-reaching agency created for the promotion of thrift. Its principal object is to inculcate the habit of thrift among the working classes and the middle and lower sections of the community. The majority of the depositors, however, belong to the professional classes and the intelligent middle-class people. The labourer, the peasant and the artisan have yet to be drawn to the portals of the post office savings bank in increasing numbers.

645. The limits of deposits that can be made and the total balance that can be held by a single depositor are now Rs. 750 and Rs. 5,000, respectively, while the limit of balance in the accounts of minors is Rs. 1,000 only. Various suggestions have been put forward for raising these limits. We, however, concur in the recommendation made by the Bombay Committee that while the ordinary limits should remain as at present, the limit in respect of minor accounts may be raised.*

646. It is suggested that Post Office Savings Banks should open current accounts with or without interest and allow withdrawal of money by cheques. We do not favour this proposal except that we support the suggestion that persons having savings accounts should be allowed to operate on these accounts, and to make deposits by means of cheques, the proceeds of the cheques in the latter case being credited to the depositor's account on collection. The system may be first introduced, as a tentative measure, in selected post offices and gradually extended as experience may justify. Accounts may be allowed to be opened jointly in the names of two persons payable to either or survivor. It would be a great convenience if the depositor were allowed to name a nominee to whom payment of the deposit should be made in the event of his death. The present procedure necessitating an examination of the legal position of heirs entails delays.

POSTAL CASH CERTIFICATES.

647. There has been no marked increase in the issues of Postal Cash Certificates during recent years, as will be seen from the table appended to Chapter II. However, the amounts invested in these certificates show that they have been instrumental in drawing out a considerable amount of savings of small people to whom perhaps no other means of investment would have proved attractive.

It has been suggested that if a holder of these certificates were allowed to nominate a person to whom the amount may be transferred in case of death, their popularity could be increased. We endorse the suggestion.

648. Opinion is divided on the question popularizing these certificates. Some advocate more favourable terms to the investor,

* Bombay, para. 289.

whereas others urge that the yield of investments in these certificates being higher than the rates of deposits ordinarily allowed by commercial banks, these cash certificates enter into competition with banks and hamper the growth of deposit-banking. They, therefore, suggest the abolition of these certificates. We are inclined to hold that between these two extremes lies the golden mean.

SAVINGS CERTIFICATES PAYABLE IN GOLD.

649. The Royal Commission on Indian Currency and Finance, 1926, has recommended the issue of gold savings certificates which could be sold for legal tender money and be redeemable, after three or five years, either in legal tender money or in gold at the option of the holder. Agreeing with the Commission that such certificates would constitute a powerful incentive to investment, several Provincial Committees have supported this proposal. The Commission have expressed the opinion that it would add to the attractiveness of the certificates if the holder were given facilities to obtain payment on account of such certificates at any time during their currency at a discount reckoned at varying rates according to the date of encashment, but that until the date of maturity it would be paid in legal tender currency and not in gold. We support these proposals* in principle, but we doubt whether it would be feasible to give effect to them under present conditions.

650. It is suggested by the Bihar and Orissa Committee that a new type of gold certificate, which for want of a better name they call "stridhan certificate", should be issued to women by the Post Office at the usual price or perhaps a slightly lower price than the postal cash certificate.† It is hoped that the incentive to earn interest may lead to the conversion of their superfluous ornaments into such certificates. We support this recommendation in principle.

GOVERNMENT SECURITIES.

651. It appears that the facilities afforded by the post office to investors for the purchase as well as the sale of Government securities and for their safe custody are not sufficiently known. Under Section VI of the Post and Telegraph Guide, any person, whether previously a depositor in the Post Office Savings Bank or not, may invest through the Post Office in any loan issued by the Government of India bearing interest at 3½ per cent or upwards. The total amount, after deducting any sum sold through the Post Office, which may be invested through the Post Office by an individual investor in any one official year from the 1st April to the 31st March inclusive, is Rs. 5,000.

Investments in Government securities can be made either from money already deposited in the investor's Savings Bank account,

* *Vide* Report of the Royal Commission on Indian Currency and Finance, paras. 67—68.

† Bihar and Orissa, para. 486.

or from money specially deposited for the purpose, or partly from the one and partly from the other.

The Post Office also sells at the current rate, and free of expenses, the whole or any portion of any Government promissory notes or stock certificates which may have been purchased for him through the Post Office, whether held by himself or held for him by the Deputy Accountant-General, Posts and Telegraphs, provided that the investor is also a Savings Bank depositor at the time of application, and also that, if only a portion is specified for sale, the balance of securities left after the sale is of the nominal value of Rs. 100 or a multiple of Rs. 100.

An investor has the option of taking delivery of the Government promissory notes or stock certificates or of leaving them in the custody of the Deputy Accountant-General, Posts and Telegraphs. Except in the case of investments in connection with public accounts or with regimental, police, or other conjoint accounts, the total amount which may be kept in the custody of the Deputy Accountant-General, Posts and Telegraphs, by an individual investor is limited to Rs. 22,500 in case of securities the interest on which is liable to income-tax unless they are retained in the custody of the Post Office. This limit is exclusive of securities issued free of income-tax as one of the conditions of subscription thereto.

No fee, commission, or brokerage of any kind is charged for the purchase, sale, safe custody or delivery out of custody, of Government securities bought through the Post Office, or for the realization and remittance of interest on such securities. So long as Government securities purchased through the Post Office remain in the custody of the Deputy Accountant-General, Posts and Telegraphs, the interest thereon is exempt from income-tax.

We are of opinion that if wider publicity is given to the facilities thus afforded, it may attract a larger number of small investors.

652. It has also been suggested that transactions in Government securities may also be encouraged if the aforesaid facilities are extended to small investors generally and not confined to those who are savings bank depositors. We endorse the suggestion.

653. It has further been suggested that banks, too, may help better than they do at present in popularizing investment in *gilt*-edged securities by reducing their charges for the purchase and sale of scrips, collection of interest, safe custody and other services incidental thereto, and by offering easy terms for the purchase of securities in instalments as the Imperial Bank of India does to promote new flotations. The Bihar and Orissa Committee have stated that the charges levied by the Imperial Bank of India for buying and selling securities are excessive, being 50 per cent higher than those charged in England for similar services.* We

*Bihar and Orissa, para. 450.

have no information as to the charges levied by banks in England for such services. We have been told by the Managing Governor of the Imperial Bank of India that the charges levied by the Bank for such services are very reasonable for the business done. He has, moreover, urged that it is necessary to take simultaneously into account all the charges made by banks for different services rendered by them for keeping an account and that it would obviously be of little use to compare a single item out of many if one wished to compare the total cost of the services. He has also pointed out that there is nothing like the same free market for securities in India as in England. We, however, support the suggestion in principle and commend it for the consideration of banks.

654. A suggestion has been made that interest coupons should be attached to Government bonds. We understand that the issue of bearer bonds was discontinued by Government, as it was believed that they were not popular. We have, therefore, no comments to make.

Investment in Industrial Securities.

655. Investors for this class of securities are drawn from a very wide circle, including all classes of people from princes and millionaires to clerks and shop-keepers. All over the world there are investors who are not content with a low yield of interest on their investments though steady and assured. They are not afraid of taking the risks ordinarily attendant on the investment of funds in stocks of industrial concerns and subscribe freely to the share capital and debenture issues of concerns which offer the prospect of a higher yield than that of gilt-edged securities and also of capital appreciation. In normal times no difficulty is experienced in India in finding capital for joint-stock concerns, provided there is a reasonable guarantee of good prospects and efficient management. The statistics concerning joint-stock companies in India, as given in the Government Publication No. 2212 (1930), show that in the year 1928 there were in existence 5,831 joint-stock companies with a paid-up rupee capital of Rs. 276 crores. These figures are exclusive of companies with capital in pounds sterling or other currencies. There is, however, no regular investment market in the country. Investment banking institutions with an organization for investigation into the merits of industrial issues, for underwriting such issues and for marketing the securities, are as yet unknown. Such institutions can, if founded, assist materially in the flotation of sound concerns, give a ready marketability to their securities and inspire public confidence in such forms of investment.

There are, however, stock exchanges at Bombay, Calcutta and Madras, which play a useful part in directing the flow of capital to industrial enterprise, by providing a market for the purchase and

sale of recognized scrips. No regular stock exchange exists in provinces other than the three above-mentioned. The want of an exchange must seriously handicap joint-stock enterprises as well as investors, but unless there is sufficient business no exchange can be established. In the absence of local exchanges, however, the existing banks and their branches, including co-operative banks and other financial organizations such as the loan offices, the Chit funds and *Nidhis*, may render useful service by undertaking the work of buying and selling stocks and securities for their customers on a commission basis.

DEBENTURES.

656. It has been represented to us by some of the witnesses that for various reasons debenture issues of industrial concerns are not popular in this country. We consider, however, that it would be more correct to say that their popularity is limited to a small class of investors which is not interested in more speculative investments. As a rule debentures charged on good undertakings and yielding a sufficiently attractive return appear to command a good price. The demand for them would naturally vary with the ebb and flow of prosperity in the industries concerned. It would also be influenced by the standing and reputation of the firms of managing agents.

657. We are told that the initial stamp duty on debentures and the duty on transfers, to a certain extent, also militate against the ready negotiability and, therefore, against the popularity of the debentures of industrial concerns. The Calcutta Stock Exchange, however, do not consider that the question of initial stamp duty, which is 1½ per cent, has any bearing on the popularity or otherwise of debenture issues. The transfer duty now varies in different provinces from annas eight to annas twelve per cent, the same as for share transfers. We recommend that it may be reduced to a uniform duty of annas four per cent. Formerly, bearer debentures did not find favour with the investing public owing to the risk of loss, but we are informed that now they are more in vogue, the fact that their transfer does not entail additional duty being an attraction.

INSURANCE COMPANIES.

658. Life insurance is an important factor influencing the development of banking. Not only does a life insurance company perform a service similar to that of a savings bank in stimulating savings, but it also assists in mobilizing the savings of the people and transferring them from individual savers to borrowers, including Government, public bodies and industrial corporations. Life insurance is thus one of the forms of investment which needs to be encouraged and developed.

659. The benefits of the post office insurance fund are available only to Government servants or servants paid from local funds.

It has been suggested that postal insurance should be extended to the general public. In view of the existence of a large number of local life insurance companies, which are doing useful work in this direction, the proposal does not appear to meet with general approval, and we do not accordingly support it.

660. Owing to the fact that many important insurance companies in India are non-Indian, the question of investment of their funds is one of peculiar interest from the point of view of developing the banking resources of the country. No statistics have been placed before us to show what portion of their funds is invested in India and how much outside; but it is believed that much of their income is invested outside the country to the detriment of the development of the country's resources, and it is therefore urged that these companies should be compelled by legislation to place an initial deposit with Government and to invest a fixed proportion of the premia received by them in the country in approved Indian securities. We consider it essential for the economic development of the country that all insurance companies doing business in it, whether Indian or non-Indian, should by a judicious investment of their funds assist in the promotion of public utility undertakings and the finance of the trade and industry of the country generally. We, therefore, recommend that legislation may be undertaken to render it obligatory on all insurance companies, Indian as well as non-Indian, to lodge an initial deposit with Government and to invest, and keep invested, a fixed proportion of their premia funds in approved Indian securities. What the proportion should be may be determined by Government after investigating the situation in the light of the necessary statistics.

Provident Funds.

661. To a limited extent, provident funds started by public bodies and corporations fulfil the same object as insurance schemes in promoting thrift.

The benefits of the provident fund are being gradually extended to the employees of charitable and educational institutions and private commercial and industrial concerns, large as well as small, throughout the country. We understand some of the joint-stock banks quote special rates of interest for the deposit of such funds. The value of all possible encouragement given by banks to institutions having as their object the promotion of the saving habit cannot be overestimated.

Investment Trusts.

662. In Great Britain and the United States of America, Investment Trusts have been instrumental in fostering the saving and investment habit of the people to a considerable extent.

Several witnesses have recommended that Investment Trusts should be formed in India and have pointed out that there is scope for them and that there are also men of ability available to manage them. One drawback pointed out, however, is the high rates of interest for money ruling in this country as compared with those prevailing in England and America, which would reduce profits. In our opinion the establishment of Investment Trusts is a matter for private enterprise and may be looked upon as a possibility, as the banking and investment habit grows in India. We, therefore, do not make any special recommendations in this connection.

Growth of the Cheque Habit.

663. The increasing use of negotiable instruments of credit is a certain indication of the growth of the banking habit. The most important of such instruments is the cheque. Evidence is forthcoming from all directions of a substantial increase in the number of cheques which daily pass through the Clearing Houses. The recent abolition of the stamp duty on cheques appears to have contributed materially to a more extensive use of the cheque not only in the Presidency towns and other big commercial centres, but also in the mofussil. The co-operative banks also recorded a rise in the number of new accounts opened and the cheques issued by them. There is, however, still a large portion of the population to whom the cheque system is a mystery. It has yet to understand and appreciate the facility and the security a cheque currency affords both to the drawer and the payee.

664. One of the most serious obstacles that impede the growth of the cheque habit in this country is the illiteracy of the people. The cheque system presupposes a certain degree of literacy which is lacking in this country. Even amongst the literate classes only a few can correctly draw up a cheque in the English language in which the cheque-books of most of the banks are printed. A single erasure or a mistake vitiates the instrument. There is, therefore, a general demand for the use of the vernacular in this and other departments of banking and we have referred to it in the chapter on Commercial Banking. Among the other suggestions put forward by the Provincial Committees with a view to popularizing the cheque habit, there are a few which call for the assistance of Government and the banks. To these we desire to invite special attention in this chapter.

665. Government can assist materially in spreading the cheque system in rural areas by accepting freely payment of land revenue by cheque. Such payments are now, under certain conditions, accepted at treasuries which are managed by the branches of the Imperial Bank of India. Very few people are, however, in a position to avail themselves of this facility. The number of such branches is limited and they are situated mostly at district headquarters. It is, therefore, suggested that the facilities for pay-

ment of land revenue by cheque may be extended to *taluka* sub-treasuries and district treasuries. We support this suggestion. It is also suggested that all material payments should be made by Government by cheque. The Bengal Committee makes definite proposals on the subject, which we commend for the consideration of Government.

Some of the Provincial Committees have suggested that local bodies should similarly encourage the use of cheques. We recommend that all municipalities and other local bodies should be asked to consider the feasibility of making and accepting payment by cheque on account of salaries to some of their employees and other items of receipts and disbursements.

666. Banks can encourage the cheque habit by providing adequate facilities for prompt encashment of cheques over the counter. Merchants and traders should also be encouraged by banks to use cheques as far as possible instead of currency in the settlement of transactions in up-country markets in connection with the movement of crops. A wide-spread use of cheques in these markets would assist greatly the development of the banking habit with the small traders. We should like to emphasize the fact that the circulation of cheques in the money market and the mobility of the banking resources of the country largely depend on the facilities given by banks for transfer of funds from one centre to another.

Need for Savings Associations.

667. We have referred above to the need for concerted and concentrated effort on the work of stimulating thrift and mobilizing small amounts of savings and directing them to channels of production. Some of the Provincial Committees and witnesses have suggested the inauguration of savings associations or thrift committees on the lines of the National Savings Associations in England. These organizations were started during the war in connection with the issue of war loans and were so successful that after the war their activities have been continued. There is now in England a National Savings Committee guiding a large number of National Savings Associations, which are local associations formed to help their members to invest in the National Savings Certificates. We support in principle the formation of such associations in all provinces. The educative effect of such organizations working systematically in different parts of the country, with the zeal and spirit of service essential in a cause of national importance, would be immense. By active propaganda for encouraging small savings, by providing means for the collection of such savings and by pooling them for remunerative investment in approved securities, they would succeed in promoting the saving habit among the young as well as the old, in overcoming the timidity of the small saver and in familiarizing him with practically safe and profitable means of investment.

CHAPTER XXV.

REGULATION OF BANKING.

Need for Regulation.

668. Serving as repositories of the cash resources of all classes of individuals and institutions, the banking institutions of a country exercise a very powerful influence on the economic life of its people. Banking business has, therefore, been regarded as *quasi*-public in its nature, warranting legislation for safeguarding the interests of depositors on whose confidence rests the entire banking structure of a nation and for ensuring and fostering the growth of banking on sound lines. Restrictions are imposed on banking operations in some form or another in different countries according to their requirements. In the United States of America, Canada and other countries there are special banking laws. In England apart from the Companies' Act there is no special enactment for the regulation of the business of banks, but the purpose of legislation in matters not specifically provided for by the Companies' Act is there served by the tradition, convention and case law that have grown up as the result of the experience of generations.

Existing position in India—The Indian Companies Act.

669. Joint stock banks in this country are at present governed by the Indian Companies Act in regard to various matters such as constitution and incorporation, articles of association, share capital, maintenance of registers of members, management and administration, meetings and proceedings, qualification, appointment and liability of directors, restrictions on commencement of business, debentures and floating charges, maintenance of books and accounts and publication of statements and balance sheets, investigation by the Registrar, inspection and audit, service and authentication of documents, arbitration, and compromise, winding up and appointment of liquidators, removal of defunct companies from the register and offences and legal proceedings. There are, however, certain matters in regard to which the Act draws a distinction between banks and other companies and prescribes special provisions applicable to banks. These provisions are set forth in brief below :—

(1) *Section 4.*—Prohibits partnership exceeding ten in number from carrying on the business of banking unless it is registered as a company, or is formed in pursuance of an Act of Parliament or some other Act of the Governor General in Council, or of Royal Charter or Letters Patent.

(2) *Section 32.*—Requires that an annual list of members, etc., should be prepared and filed with the Register, and a note appended

to Form E requires that banking companies should add a list of all their places of business to the above-mentioned list.

(3) *Section 132.*—Requires that the balance-sheet shall be in the form marked F in the Third Schedule, or as near thereto as circumstances admit, and Form F requires that in showing book debts a distinction should be drawn between those considered good and in respect of which the bank is fully secured and those considered good for which the bank holds no security other than the debtors' personal security, and exempts banks from the obligation to show provision made for bad and doubtful debts which has to be shown in the balance sheet in the case of all other companies.

(4) *Section 136.*—Requires every company being a limited banking company to make a statement in Form G in the Third Schedule, or as near thereto as possible, before it commences business, and thereafter on the first Monday in February and the first Monday in August in every year.

(5) *Section 138.*—Provides that the local Government may appoint one or more inspectors to investigate the affairs of a banking company on the application of members holding not less than one-fifth of the shares issued, the proportion in the case of any other company having a share capital being one-tenth of the shares issued.

(6) *Section 145.*—Provides that if a banking company has branch banks beyond the limits of India, it shall be sufficient if the auditor is allowed access to such copies of, and extracts from, the books and accounts of any such branch as have been transmitted to the head office of the company in British India.

(7) *Section 259.*—Requires a banking company, which was in existence on 1st May, 1882, to give notice to account holders of its intention to register as a limited company at least 30 days before registering.

670. It appears to be the general opinion that the Companies Act touches only the fringe of the problem of banking legislation and that there should be some legislative control over the operations of banking institutions which at present stand almost exclusively outside the purview of the Indian Companies Act. In fact, the question of legislation for the regulation of banking has engaged the attention of the Government of India and of the public for several years. In a letter addressed by the Government of India to the provincial Governments in the year 1913, it was stated that it was not the intention of Government to attempt to control all the numerous forms of banking operations known under various names which were carried on in this country in business centres either by foreign or indigenous agency. It

was added that similarly it was not proposed to include in the scope of such legislation the regulation of a form of banking undertaken by industrial companies which received deposits during their busy season in order to finance the business of the firm, but that it was proposed only to examine the desirability of attempting to impose restrictions on the use of the term "bank" or "bankers" or its equivalents such as "Banking Agents", "Banking Societies", etc., by individuals, partnerships or companies who conducted banking business on lines which were unsound and likely to imperil the security of credit. It was pointed out that in the first place it was for consideration whether the term "bank", "bankers", etc., should not be restricted to companies registered under the Indian Companies Act and it was stated that it would appear desirable that, at least for the future, the term "bank", "bankers", etc., should not be allowed to be used except by registered companies and that Government would be prepared to consider the question of permitting the then existing companies to continue their business on their undertaking the regular publication at six-monthly intervals of balance-sheets audited under the provisions of Section 144 of the Indian Companies Act. It was added that it would follow from these suggestions, if they proved capable of adoption, that institutions that would thereafter possess the name and prestige of "banks" should be subject to certain restrictions. The views of local Governments, Chambers of Commerce and other public bodies interested in the question were invited, and the replies received revealed a body of opinion in favour of legislation requiring that institutions styling themselves "banks" should be registered under the Indian Companies Act and should limit their business to what is generally known as banking.

Need for a Special Bank Act.

671. We are not in favour of elaborate banking regulations and restrictions dealing with matters which had best be left to the discretion and sense of responsibility of the directorate and the management; such restriction is at times likely to do more harm than good and to hamper the activities of banks. At the same time, we are of opinion that the existing provisions in the Indian Companies Act governing banking companies are inadequate. Several important matters having a vital bearing on questions such as the initial organization of banks, their efficient management and stability, provisions for supervision and examination and publication of accounts, the safety of shareholders and depositors and the development of banking generally on sound lines remain to be provided for. We do not suggest that it is necessary to provide for all these matters by legislation. Some

can be met by suitable provisions in the memorandum and articles of association of the different banking companies according to their respective requirements, subject to the approval of the Registrar of Joint-Stock Companies; some might be left to the control of directors and the supervision of auditors; while some would lie within the purview of the Reserve Bank when it is established. Nevertheless there will remain certain matters which, in our opinion, will have to be provided for by legislation.

672. There are two ways in which the existing regulations can be amplified :—

(1) by the promulgation of a special Bank Act comprising the necessary provisions governing all banking institutions, and

(2) by the amendment and amplification of the Indian Companies Act so as to provide for the additional matters which require to be dealt with by legislation.

673. We prefer the first alternative which will, in our opinion, be more convenient to the public as well as to the banks, and we recommend that a special Bank Act may be passed comprising the existing regulations embodied in the Indian Companies Act with the modifications and additional provisions recommended below. The foreign banks operating in India should be brought within the purview of the Act to the extent indicated in the report and provided for in the Act.

674. Various suggestions have been made to us for legal provisions regulating the organization and functioning of banks. Most of them are apparently made in the light of the experience of various witnesses concerning the failures of banks in the past. We have already pointed out in Chapter II that some of the early banks came to grief owing to combination of trading with banking. Various other reasons have been given by different witnesses for bank failures, but an analysis of their statements shows that the root cause of the disaster can be traced to defective management. For instance, some of the principal causes of failures mentioned by them are :

(*a*) dishonest management;

(*b*) incompetence of directors who have been found to be "too innocent of banking practice or business prudence" to check the manipulations of designing directors or managers;

(*c*) bad and speculative investments;

(*d*) unrestricted loans given to directors or concerns in which they were interested;

(*e*) injudicious advances;

(*f*) utilization of short-term deposits for long-term loans;

(*g*) insufficient paid-up capital and an unduly large proportion thereof held in immovable property;

(*h*) insufficient reserves;

(*i*) insufficient liquidity of funds.

Some of the witnesses have rightly pointed out that the failure of some banks could also be ascribed to want of co-operation among banks for joint action in the hour of need, absence of a central banking institution from which timely assistance could be obtained and lack of any organization through which schemes for amalgamation could be put through.

675. We propose to classify our recommendations concerning the additional provisions which should, in our opinion, be incorporated in the proposed Act under the following heads:

(1) Organization,
(2) Management,
(3) Audit and Inspection,
(4) Liquidation and Amalgamation.

(1) Organization.

676. The incorporation of a banking concern under an Act of the legislature involves an obligation to comply with certain general requirements laid down therein. While such provisions cannot prevent fraud or mismanagement, they ensure a minimum standard of efficiency and integrity in the conduct of business of the institution. The Indian Companies Act requires, under Section 4, that more than ten partners wishing to carry on the business of banking must form themselves into a company and get it registered under the Act. The term "banking" has not, however, been defined in the Act and the question has often been raised as to whether any and every concern choosing to style itself a bank should be allowed to use the term.

Definition of "Banking".

677. Nowhere has a definition of "banking" been evolved which has met with general acceptance. None of the banking enactments of different countries that we have seen incorporates a definition of the term "bank" or "banking business". For instance, the framers of the Bank Act of Canada are content with merely interpreting the term "bank" as meaning "any bank to which

this Act applies". In England the Bills of Exchange Act says: "banker" includes "a body of persons whether incorporated or not who carry on the business of banking". The Negotiable Instruments Act of 1881 of our country takes us no further. Section 3 of the Act simply lays down that the term "bankers" includes "also persons or a corporation or company acting as bankers". In reply to our questionnaire some of the witnesses have expressed the opinion that no attempt should be made to define the term "banking" by legislation, lest it should give rise to technical difficulties. Others, however, consider it necessary that there should be a legal definition. Several ingenious definitions have been suggested by a few witnesses and some of the Provincial Committees.* Fairly exhaustive and helpful as these suggestions are, we find that the task of defining the term "bank" or "banker", which has been regarded as well nigh impossible in other countries, is much more so in India where a definition cannot be drawn up without excluding many firms of indigenous bankers and individuals who do a considerable portion of the financing of the country.

678. It may be mentioned that in his "Law of Banking" Sir John Paget, after reviewing legal decisions, sums up the position as follows :—

No one and no body, corporate or otherwise, can be a 'banker' who does not—

(1) take deposit accounts,

(2) take current accounts,

(3) issue and pay cheques drawn on himself,

(4) collect cheques, crossed and uncrossed, for his customers.

But a person or body corporate may in his opinion do all of these things and yet not be a "banker"; for in addition to the above-mentioned requirements,

(5) banking must be a part of the man's known occupation,

(6) he must hold himself out as a banker and the public take him as such,

(7) there must be an intention generally to get a living by so doing, and

(8) the banking business conducted must not be subsidiary or ancillary to another business or other businesses carried on by the same concern.

"The only true road to safety", adds Sir John Paget, "both for the public and the banker, lies in the scheme, propounded by those

* *Vide* Bombay para. 286 ; Bengal para. 464 ; Burma para. 658.

best qualified to judge, of an authorative and conclusive register of bankers. This, completed after investigation by a legally qualified tribunal and amended by the same as occasion may require, would supply a means of ready reference and prompt decision, open to the bank clerk and public alike."

679. For the purpose of the Enemy Banking Business Rules, 1918, which for a period of at least five years after the war forbade any banking business to be carried on in the United Kingdom by a company which was an enemy-controlled corporation, "banking business" was defined as follows :—

> "Receiving money on current account or on deposit; accepting bills of exchange; making, discounting, buying, selling, collecting or dealing in bills of exchange, promissory notes and drafts whether negotiable or not: buying, selling or collecting coupons: buying or selling foreign exchange by cable-transfer or otherwise: issuing for subscription or purchase or underwriting the issue of loans, shares or securities: making or negotiating loans for commercial or industrial objects: or granting and issuing letters of credit and circular notes: except in so far as such operations form part of and are for the purpose of and incidental to the conduct of a business carried on for other purposes by the company, firm or individual by whom such operations are transacted."

680. We have referred above to the Government of India's communication regarding the desirability of imposing some restriction by legislation on the indiscriminate use of the term "bank", or "banker", by individuals and firms whose business has no relation to banking properly so-called. We have also referred to the general body of opinion elicited by this communication. The subject was touched upon by the Royal Commission on Indian Currency and Finance, 1926. In paragraph 162 of their report they suggested that "the term 'bank' or 'banker' should be interpreted as meaning every person, firm or company using in its description or title 'bank', or 'banker' or 'banking', and every company accepting deposits of money subject to withdrawal by cheque, draft, or order". They recognized, however, that in view of the special conditions of indigenous banking in India, this matter would require more detailed consideration than they had been able to give to it and they recommended that it should be further examined.

681. Having examined the question further, we find that the difficulty pointed out by the Commission is one which cannot be fully met by any legal definition or any restrictive or regulating provision of the law. What is really needed is a register of

bankers without a hard and fast definition and we are of opinion that the situation in India as regards indigenous bankers will best be met by an arrangement for the enrolment of such bankers as members of a recognized association.

682. In Chapter XXIII we have suggested the formation of a Bankers' Association. It has been suggested by the foreign experts that the members of the Association may affix to their names the appellation, "Member of the Bankers' Association", which would carry with it the status of a recognized banker. We approve of this suggestion which, if adopted, would render it unnecessary to restrict by law the use of the terms "bank" and "banker" and their equivalents. The mere term "banker", as used in this country, would be shorn of much of the prestige it now conveys, after the appellation "Member of the Bankers' Association" comes into vogue. As regards companies, using the term "bank" or its "equivalent", and desiring to be incorporated under the Bank Act, we recommend that the Act should lay down that adequate provisions regarding the subjects mentioned in paragraphs 700, 709, 710, 712, 714 to 717, 721 and 731 of this chapter should be incorporated in the Memorandum and Articles of Association of a company which wants to make use of the word "bank" or the words "savings bank", "banking company", "banking house", "banking association" or "banking institution", or any word or words of import equivalent thereto in connection with its operations. We also recommend that an existing company using any such title should arrange to conform to such provisions within five years after the Banking Act is passed, failing which registration in its existing name should be cancelled.

Banks registered under the Indian Co-operative Societies Act or under any special charter or enactment such as the Imperial Bank of India Act, and banks registered under laws of other countries, will be exempt from the operation of this provision. It would also be open to any unregistered firm or individual to use the term "bank" and it appears to us to be difficult to devise any means by which they can be prevented from doing so.

Licensing of Banks.

683. It has been suggested to us that all individuals and firms doing banking business, excepting joint-stock banks incorporated under the Indian Companies Act and societies registered under the Co-operative Societies Acts, should be compelled by law to take out licences which would impose certain restrictions on their working. We consider this suggestion impracticable in the existing circumstances. Indigenous bankers who now finance the bulk of the internal trade of the country would not subject themselves to any such restriction and banking in this country has not developed

to such an extent as to admit of the withdrawal of a large number of indigenous bankers and private banking firms from the field of banking.

684. We, however, recommend that any bank, Indian or non-Indian, wishing to do banking business in India should be required to take out a licence from the Reserve Bank when it is established. This is partly necessary in the interests of depositors and partly for giving the Reserve Bank some control over the banks operating in the country. Licences should be freely granted to the already established banks and it would be the business of the licensing authority to see that the provisions of the law and any other conditions specified in the licences are complied with. So far as this proposal applies to non-Indian banks we have already dealt with it in paragraph 451 of our Report.

685. We may explain that the object underlying the proposal in the preceding paragraph is to ensure a systematic development and extension of joint-stock banking and not to impede in any way free competition. Having regard to the present stage of literacy of the people, we consider it essential that a bank should be organized on certain recognized principles of banking and that no institution calling itself a bank should start operations without obtaining a licence from the Reserve Bank. Having regard also to the present stage of development of banking in the country, we consider it essential that there should be a policy of encouraging expansion of banking in areas where there is need for it and discouraging the multiplication of banking institutions beyond the needs of business in particular localities. We have no doubt that the Reserve Bank would be willing to encourage the expansion of banking as much as possible and that its policy in granting licences would be influenced solely by the considerations of the economic interests of the country. As pointed out by us in chapter XIX, even the foreign banking experts, who are generally not in favour of the introduction of a licensing system, recognize that the Reserve Bank may be trusted to act in this respect "in a sound and impartial way". They, however, take exception to the reasons given by us in support of the proposal. They consider that the protection of interests of depositors by means of licences will be a dangerous responsibility for the Reserve Bank to undertake. We have not suggested that such responsibility should devolve on the Reserve Bank. What it would do among other things, before issuing a licence, would be to see that the financial position of a new bank and the general standing and reputation of its directorate are such as to admit of its being allowed to deal in credit. Licensing implies preliminary investigation as to the fitness of an institution to commence work and enforcement of the conditions of the licence. But it carries no assurance and no guarantee concerning the efficiency or integrity of its future

management, and is not likely to be construed as conveying such a guarantee any more than registration under the Indian Companies Act at present or under the Banking Act in future will convey a guarantee. We do not, therefore, share the apprehension of the experts that in suggesting that the Reserve Bank should be the authority to issue licences to new banks we are asking it to undertake a dangerous responsibility.

686. The other reason given by us in support of the proposal for licensing banks is that the Reserve Bank may thereby obtain some control over the banks operating in the country. If the Bank had the authority to issue licences, it would be easy for it to get all banks to conform, as a condition governing the grant of licences, to certain general requirements regarding the preparation and publication of statements of their accounts. It would further be able, as pointed out by the Bombay Chamber of Commerce and mentioned by us in paragraph 447, to control the evil of overcrowding of banks at certain places. It is not suggested by us that by merely having the authority to grant licences, the Reserve Bank would be able to obtain full control over the operations of the banks doing business in the country. While, therefore, we agree with the foreign experts that such control should be obtained by the Reserve Bank by means of its discount rate and its open market policy, we see considerable advantage in the Reserve Bank being invested with additional powers to exercise general control over the banking system of the country.

687. We have already recommended in Chapter XIX that the opening of a new branch by an existing bank should be subject to the approval of the Reserve Bank.

688. It has been suggested that there should be a provision in the Act requiring the permission of the Central Banking Authority for opening savings banks. It is urged that small depositors who are attracted by the term "savings bank" need special protection. We are not, however, in favour of this proposal. It has been customary with banks in this country to maintain savings banks departments and by offering special terms in respect of savings deposits they have succeeded in attracting considerable amounts of small savings and thus mobilizing the resources of the comparatively poorer section of the population. Moreover, should the proposal be adopted, a highly anomalous situation would be created. While the banks registered under the proposed Act would be subjected to such a restriction, it would be open to those not so registered and remaining outside its purview to receive savings deposits and run savings banks departments.

689. We recommend that there should be a provision in the Act requiring that every institution doing banking business in British India, other than a foreign bank, should have a majority of natural born or domiciled Indian directors. We are of opinion

that such a provision is essential for the regulation of a service of national importance such as banking. We consider that some safeguards are necessary to prevent the control and management of such a service passing into foreign hands and that unless non-nationals are precluded from having a preponderating voice in the management of banks operating in this country, it would not be possible to give effect to any national policy that might be evolved for the development of banking in the interests of Indians.

690. For the same reasons we recommend that no new bank other than a foreign bank should be allowed to operate in British India unless it has a majority of Indian shareholders and is incorporated under the Indian law.

691. Some of our colleagues* are unable to subscribe to the views expressed in the preceding two paragraphs. They consider that in the case of banks started by private initiative it is undesirable to lay down any restrictions by legislation on the rights of shareholders to choose their own directors and on the free transferability of shares, and that these matters should be provided for in the Articles of Association as is done in most other countries of the world. They are inclined to think that the acceptance of the proposals in the two preceding paragraphs must convey an implication that promoters of Indian banking companies and the shareholders of these companies are less likely to secure a protection of national interests by their voluntary action than citizens in other countries; and they are unable to subscribe to any proposals which may convey this implication. The Director of the Bureau of Foreign and Domestic Commerce in the United States in a bulletin issued in 1929 has pointed out that the examination of the laws of several European countries shows that nearly all these countries provide equal rights for foreign shareholders, though Spain, Roumania, Sweden and Norway have definite restrictions on foreign capital in the development of their national resources. But even in Spain the restrictions are only applied to banks and companies which have any direct contractual relationship with the Government or which are concessionnaires of public services. The Director has further observed that most countries permit corporations to make their own provisions regarding shareholders' rights and that the absence of definite laws has resulted in many private measures restricting foreign shareholders. Those of our colleagues who differ from us in regard to the recommendations in paragraphs 689 and 690 therefore consider that the practice in other countries and the absolute discretion given in paragraph 699 of our Report to directors of banks to refuse to register transfers of shares without assigning any reason do not justify any restrictive and safeguarding measures except when any bank

* Sir Bhupendra Nath Mitra, Sir Hugh Cocke, Mr. F. V. Rushforth, Dr. Hyder, Messrs. W. Lamond and R. W. Buckley, Nawab Sir Sahibzada Abdul Qaiyum and Mr. G. K. Devadhar.

obtains some concession from the State. In the latter case, the executive government or the legislature will be fully justified, in their opinion, in stipulating for measures calculated to prevent the control and management passing into foreign hands.

Prohibition of activities other than banking.

692. There is a consensus of opinion among witnesses that banking business is not compatible with trading, and we concur in this opinion. There have been instances on record in which banking institutions came to grief because of their trading operations or close contractual relations with trading concerns. Of these the most conspicuous instance is that of the Alliance Bank of Simla whose connection with a trading firm led to a colossal drain on its resources and brought about its ruin. We have already referred in Chapter II to the failure of some of the banks inaugurated during the days of the East Indian Company owing to the combination of banking with other business and speculation. We, therefore, recommend that the Articles of Association of a banking company should prohibit activities other than banking and that the Act should give powers to the Registrar of Joint-Stock Companies to refuse the registration of banks the Articles of Association of which are not in accordance with the provisions of the law in regard to this matter. He should also refuse the registration of banks if the Articles of Association do not make adequate provisions in regard to the other matters referred to below.

Managing Agency System.

693. It has been suggested that the managing agency system as applied to joint-stock banks in India is both unnecessary and undesirable and that, before it is too late, there should be a statutory provision prohibiting the advent of managing agents in the field of banking. Whatever justification there may be for the managing agency system in the sphere of industry, banking is not a business in which the need for such an agency ought ever to be felt. We, accordingly, recommend that the Bank Act should prohibit the organization of a bank on the managing agency system and provide further that any arrangement made subsequently for conducting the management of a bank under such a system shall be void. The object we have in view is to prevent long-term agency contracts being given to firms or individuals creating, so to say, a hereditary title to the agency.

Capital.

694. One of the advantages of incorporation of banks under an Act of legislature is that it renders it possible for Government to prevent the growth of mushroom banks with insufficient capital,

which in the nature of things would have a less extensive distribution of risks and would be less able to withstand shocks than banks of larger size. There is nothing, however, in the Indian Companies Act to require the provision of a minimum capital or to prevent a new concern of doubtful pretensions from placing its authorized capital at a high figure, out of all proportion to its paid-up capital, with the object of giving an exaggerated idea of its resources and misleading the public. The Statistical Tables relating to Banks in India give glaring instances of so-called banks that had no difficulty in starting business in the absence of any legal obligation to provide a minimum amount of capital. Six out of the sixteen banks that failed, or went into liquidation in 1927, had practically no paid-up capital. The paid-up capital of one was only Rs. 800, of another Rs. 1,400, and the capital of two more was less than Rs. 5,000 each. Similarly, of the thirteen banks that failed in 1928, four had no paid-up capital and not even any subscribed capital. The paid-up capital of one was only Rs. 2,780, of another Rs. 3,804 and of a third Rs. 5,000.

695. Most of the witnesses are of opinion that it is necessary that the legislature should prescribe a minimum amount of capital which a banking company must raise before it commences operations and that it should also prescribe some definite relationship between the authorized and subscribed capital and between the subscribed and paid-up capital. In prescribing a statutory limit, however, care has to be taken to see that it does not preclude the possibility of the opening of small banks in areas which are not served by banks at present. We are of opinion that in the existing stage of development of banking in this country a minimum capital of Rs. 50,000 should be sufficient. We, therefore, recommend that the new Act should provide that a bank registered under the Act should not commence business until its paid-up capital is at least Rs. 50,000. We are also of opinion that the authorized capital of a bank should not be more than double the subscribed capital and that the paid-up capital should not be less than 50 per cent of the subscribed capital before commencement of business.

696. Our proposals regarding capital requirements have been made in respect of joint-stock banks with limited liability. Under Section 70 of the Indian Companies Act the liability of a director or directors of a limited company may, if so provided by the memorandum of association, be unlimited. It is not intended that the capital requirements suggested by us should be made applicable to such banking companies also.

Maintenance of Registers of Members.

697. The Indian Companies Act provides for the maintenance of a register of members and the preparation of an annual list of members. It is suggested that there should be a separate index

of the names of members of a banking company for ready reference and inspection by shareholders, as is provided for by section 96 of the (English) Companies Act, sub-section (1) of which runs as under :—

> "Every company having more than fifty members shall, unless the register of members is in such a form as to constitute in itself an index, keep an index of the names of the members of the company and shall, within fourteen days after the date on which any alteration is made in the register of members, make any necessary alteration in the index."

We approve of this suggestion and recommend that a similar provision may be introduced in the proposed Act.

698. It has been suggested that there should be a provision requiring institutions doing banking business in India to keep a separate register of shares owned by non-nationals. We support this suggestion.

Registration of Transfers of Shares.

699. The Articles of Association of a bank generally empower its directors to refuse to register transfers of shares, whether fully or partly paid, without assigning any reason. It has been represented to us that sometimes such authority is wrongly and arbitrarily exercised. It is suggested that in the case of fully paid shares no such power should vest in the directors or that the directors should be required to give reasons for refusal so that the aggrieved shareholders might have the opportunity to appeal to law. We are not in favour of restricting in any way the discretion of the Board of Directors of a bank to admit or not to admit any person as a member of the company. It is, however, a matter which may be met by provisions in the Articles of Association, should it be considered necessary by the promoters or shareholders to restrict the powers of the directors in respect of registration of transfers of shares.

700. The Articles of Association of banking companies also contain a clause prohibiting a member from being present at or voting at a meeting unless he has been possessed of shares of the bank for a certain period before the meeting is held. It is suggested that the period should not exceed six weeks and that some safeguard be provided against directors unduly putting off registration of transfers with a view to bringing a shareholder within the operation of the clause. We are of opinion that it is for the company to provide in the Articles of Association the period during which a member should have held its shares before being entitled to take part in its proceedings. In order, however, to prevent unnecessary delay in the registration of transfers, we recommend

that there should be a provision in the Bank Act requiring the directors to decide within two months of the date of presentation of transfer deeds to the bank whether the transfers shall be registered or not.

Registration of mortgages and charges.

701. It is suggested that particulars of mortgages and charges created by a bank on its own assets, which would under section 109 of the Indian Companies Act be void if not registered with the Registrar, should also be filed with the Registrar of the province where the bank has branches, so that those who are dealing with the branches can have better means of ascertaining the nature of such transactions which vitally affect the credit of the bank. We approve of this suggestion.

702. It is also suggested that in the event of a bank acquiring immovable property which may be already subject to a prior charge of any such kind as would, if it had been created by the company after the acquisition of the property, have been required to be registered under section 109 of the Companies Act, it should get particulars of such prior charge registered. The principle underlying the suggestion is that it makes no difference whether a bank itself creates a charge on its assets or acquires assets subject to a prior charge. This principle is recognized in England where under section 81 of the (English) Companies Act, 1929, the duty of registering such charges is imposed on a company registered in England. We recommend that a similar provision be introduced in the Bank Act.

703. Another suggestion is that satisfaction of a mortgage should be recorded before the Registrar. This is not compulsory under the present law, and it has been represented to us that persons searching the Registrar's record are frequently misled in consequence. We support this suggestion also.

(2) MANAGEMENT.

Provision of Reserves.

704. On the soundness of a bank's policy concerning the distribution of profits among the shareholders, and the allocation of a portion thereof to the reserve fund, depends its stability as well as prestige. The laws of several countries require banks to set aside, before declaration of dividend, a prescribed minimum share of their net profits for the building up of a reserve fund which would enable them to meet losses without depleting their capital. Under the National Bank Act of America, every bank is required to allocate 10 per cent of its net profits to reserve until it reaches 20 per cent of the capital. Moreover, the Comptroller has the discretion to decide that dividends shall not be paid at all, if

in his opinion the reserve already built up is not substantial. Under section 59 of the Canada Bank Act, the rate of dividend is limited to eight per cent per annum until the bank has a reserve fund equal to at least 30 per cent of its paid-up capital after all the appropriations necessary for ascertained and estimated losses have been made. In Japan under the new Act (1927) no dividend can be declared until one-tenth of the profits is appropriated to the reserve fund. Various suggestions have, accordingly, been made to secure a sound banking policy in India by strengthening the reserves of a bank. It is suggested that the allocation of profits to dividends should be forbidden until all preliminary and flotation expenses have been paid, and that thereafter the distribution of profits should be restricted so as to provide for adequate sums being set aside for depreciation of dead stock and investment and reserve fund. Some would prohibit the declaration of a dividend, while others would set a limit to the rate of dividend, until the reserve fund amounted to the whole or a prescribed proportion of the paid-up capital. Others, again, would have an equal proportion of the net profits declared as dividend and taken to reserves. In this connexion we cannot too strongly emphasize the fact that the first essential of a banking system is sound management and that if that is wanting, no legislative provision for strengthening its reserves or its financial position generally would be of much avail. In view, however, of the fact that banking in this country is yet in its infancy, we recommend that there should be no distribution of dividend in any year until a bank has set aside, for being taken to the reserve fund, an amount equal to at least 2½ per cent of its paid-up capital and that this restriction should be in operation until the reserve fund equals the paid-up capital.

705. In addition to the reserve fund, a prudent board of directors generally builds up from annual profits a secret reserve which is not disclosed on the balance-sheet. It is on this secret reserve that it mainly relies to meet unforeseen losses, leaving untouched the reserve fund disclosed in the balance-sheet and causing as little uneasiness as possible to depositors and shareholders. The need for such a secret reserve in a well-managed bank is generally recognized, and we call attention to this practice merely to emphasize the fact that the provision we have suggested should be regarded as an absolute minimum and not as a rule of perfection. The minimum prescribed by law often tends to become the maximum and that is one of the reasons why the legislature generally shrinks from regularizing by law matters such as these, thereby taking off the shoulders of the management their responsibility in regard thereto. From the point of view of sound management, we consider it important that managers of banks should not be content with the annual accretion to the

reserve fund of the minimum amount suggested by us and that they should review their position from year to year and make such further provisions for reserves as circumstances may require.

Cash Reserves.

706. Several suggestions have been made for requiring banks to hold minimum reserves of cash. Such a provision is considered necessary to prevent the cash reserves of a bank being depleted to a point which might endanger its solvency. The United States of America is, however, the only important country that has prescribed minimum reserve requirements. In the early days of banking in that country many banking institutions kept practically no reserves with the result that their outstanding notes depreciated in value with disastrous effects on the monetary system. We are not in a position to say whether the banks in India maintain a sufficiently liquid position throughout the year. The figures given for the closing day of the yearly or half-yearly period can scarcely be taken as an index to the actual day to day position of the banks. Nevertheless, we do not consider it desirable that there should be statutory provisions on the subject. While there are many ways of evading the legal requirements in this respect, there is also the danger of the statutory minimum being regarded as the maximum in relation to a position which changes from day to day and which in our opinion requires to be regulated with care and foresight rather than by rule of thumb. The question of the inter-relation of loans, deposits and reserves, and of the maintenance from day to day of an adequate ratio of fluid resources to time and demand liabilities is one that in our opinion had best be left to the discretion of the management and the control of the directors. When the Reserve Bank is established, the member banks will be required to keep with that Bank a deposit of a certain percentage of their time and demand liabilities, in addition to their till money. Irrespective of the other advantages of such a system of mobilization of the reserves of the banking institutions of the country, it would mean a distinct improvement on the existing position regarding the maintenance of cash reserves.

Regulation of Loans.

707. Various suggestions have been put forward with a view to regulating advances made by a bank and ensuring a sound loan policy. It is suggested that the total clean advances made by a bank or its advances against immovable property should not exceed the paid-up capital. Another suggestion is to impose this restriction only during the first five years of a bank's existence. It has also been suggested that banks should not be allowed to grant any loan on the security of their own shares. Some witnesses

have also expressed their opinion that advances to an individual without security should be limited; that a limit should be fixed to the total amount which may be advanced to any single individual or to any single concern and that the limit should be absolute and should not exceed a fixed proportion of the bank's capital.

708. Underlying these suggestions are sound principles of banking to which a prudent banker would willingly subscribe. The reason for limiting the amount of loans that may be given on the security of immovable property is that they are not liquid. They are ordinarily made for long periods of time and the mortgages given as security are not readily realizable as is the case with stocks and bonds and liquid assets. The object of imposing restrictions on the amount of credit that may be allowed to any single person or corporation is to insure a relatively wide distribution of risks. These are, however, matters in regard to which there can be no hard and fast regulations. We are of opinion that they should be left to the discretion of the management and the control of the Board of Directors.

709. The question of making loans on the security of a bank's own stock, however, stands on a different footing. The objection to such loans is that they lead to abuses that have proved disastrous in the history of the banks of this as well as other countries. We have suggested above that no bank should be allowed to commence business until it has collected a certain amount of capital. Were a bank to make loans on the security of its own stock and were the amounts advanced used as a means of purchasing additional capital stock of the bank, a large amount of the bank's capital would be borrowed from the bank itself and it may not be able to realize the securities against which it has lent money should it be necessary to adjust the account. We are, therefore, of opinion that there should be a provision in the Articles of Association of a banking company prohibiting such loans.

710. Similarly, the Articles of Association should provide for limitation of loans to directors and managers and members of the staff.

711. The auditors of a bank, however, stand on a different footing. The duties they are required to perform are such that they should be absolutely independent of the management and should have no business relations with the bank which might compromise their position. We are, therefore, of opinion that as a matter of public policy advances to an auditor or a member of a firm of auditors of a bank, either jointly with other persons, or severally, on short or long-term, with or without security, should be prohibited. If any person after being appointed an auditor of a bank becomes indebted to it, his office should thereupon become vacant.

Restrictions on borrowing powers.

712. A bank's Articles of Association generally give wide powers of borrowing to the directors. It has been represented to us that some statutory limitations are necessary and that the amount borrowed by a bank should have a definite relationship to the paid-up capital. We are inclined to leave this matter also to be met by suitable provisions in the Articles of Association. We are, however, definitely of opinion that the uncalled capital of a bank is its creditors' security and should not be allowed to be mortgaged. We accordingly recommend that there should be a provision in the Bank Act expressly prohibiting banks registered under the Act from creating at any time a mortgage or a charge on their uncalled capital or any part thereof.

Qualifications, Appointment and Voting power of Directors and Officers.

713. Several suggestions have been made regarding the appointment of directors, their disqualification for and retirement or removal from office, the qualifications of managers and managing directors, their voting power, etc. The Articles of Association usually contain provisions regarding such matters as the appointment and retirement of directors, and we see no necessity for statutory provisions in regard to these matters which it is mainly for the shareholders to regulate.

Proxies.

714. It is suggested that, as provided in section 31 of the Canada Act, no manager, officer or clerk of a bank shall vote either in person or by proxy, or hold a proxy for the purpose of voting, and that the general form of proxy should be prohibited entirely. We are of opinion that the right to vote in their capacity as shareholders which under the existing practice is conceded to the officers and other employees of a bank should not be taken away from them but that such employees should not be allowed to hold proxies for the purpose of voting on behalf of any other shareholder. We do not, however, suggest any statutory inhibition, but recommend that the Articles of Association should contain a suitable provision regarding the voting power of the officers and employees of the bank and the holding of proxies by them.

715. It has also been suggested that the general form of proxy should be prohibited but that, if allowed, the maximum period of its duration and validity should not exceed three months. This also is a matter which, in our opinion, should be met by a suitable provision in the Articles of Association.

Voting power of individual shareholders.

716. It is further suggested that the voting power of individual shareholders should be limited with a view to preventing the possibility of control of an institution passing into the hands of a single shareholder or group of shareholders. The existing practice in this country as well as in other countries allows one vote for each share held by a shareholder in a joint-stock concern, and we are not prepared to recommend any change in this practice. It is possible, however, that the promoters of a company may desire to provide safeguards against individuals or groups of individuals acquiring a controlling interest in it. We, therefore, suggest that this matter may also be provided for in the Articles of Association.

Validity of Votes.

717. Articles of Association of banking companies made the Chairman of a meeting the sole judge of the validity of the votes tendered at the poll. It is urged that it is undesirable to vest such power in the presiding authority. It is generally provided in the Articles that objections to the legality of a vote tendered at a meeting should be raised at the time of the poll. This, it is stated, causes hardship, as it is not possible for a shareholder present to be aware of the validity, or otherwise, of votes tendered by other shareholders, and it is urged that the right to object subsequently, to invalid votes should not be taken away from the members of a bank and the jurisdiction of the court thus ousted. We are of opinion that these too are matters which could best be dealt with by a suitable provision in the Articles of Association.

(3) AUDIT AND INSPECTION.

Appointment of Auditors.

718. Banks' accounts are now audited by professional auditors. Under section 144 of the Indian Companies Act, no person can be appointed or act as an auditor of any company other than a private company unless he holds a certificate from the local Government entitling him to act as an auditor of companies. This requisition is subject to the proviso that the Governor General in Council may by notification in the *Gazette of India* declare that members of any institution or association specified in such notification shall be entitled to be appointed and to act as auditors of companies throughout British India. The appointment of auditors of a bank vests in the shareholders, but it has been pointed out that the management has considerable influence with regard to their appointment or reappointment. One of the witnesses calls attention to the Canadian practice of appointing auditors only from among the list of auditors selected from the Canadian Bankers' Association. Another witness suggests that

firms of auditors of long standing and experience should be given special licences or certificates to act as auditors to banks. On the other hand, the Council of the Indian Society of Accountants and Auditors are of opinion that all persons whose names are enrolled on the Indian register of accountants under the authority of the Governor General in Council under the Indian Companies (Amendment) Act, 1930, may be appointed as auditors of banks. They strongly oppose the idea of restricting the selection of bank auditors to only a few among the qualified auditors and suggest that there should be a provision in India on lines similar to those prescribed by section 55 of the Dominion of Canada Bank Act of 1923 which imposes a restriction on the period of appointment of the same persons as auditors of banks. It is also suggested that there should be two auditors, one appointed by the directors and the other by the shareholders. It is believed that such an arrangement would minimize the possibilities of the auditors conniving at any irregularity committed by the management or by the directorate. After careful consideration, in consultation with the foreign experts, of all the suggestions made to us in regard to the appointment of auditors, we have come to the conclusion that the existing arrangements need not be disturbed. Under these arrangements shareholders have the right to appoint auditors, and so long as this right remains unfettered, it is open to them to make the best possible selection.

719. It has been suggested to us that it should be illegal for directors of a bank to vote as shareholders or to solicit proxies for the appointment or removal of auditors. We do not agree that the rights of directors as shareholders should in this respect be in any way trenched upon in the manner suggested.

720. It has been brought to our notice that the affairs of certain banks revealed the fact that their auditors had passed over important matters which should have been brought to the notice of the shareholders. Section 282 of the Indian Companies Act lays down that whoever in any return, report, certificate, balance-sheet or other document wilfully makes a statement false in any material particular, knowing it to be false, shall be punishable with imprisonment and shall also be liable to fine. It does not, however, provide any penalty for omitting to make a statement. It has also been represented to us that there is an increasing tendency to insert an indemnity clause in the Articles of Association of joint-stock companies in India whereby directors and auditors are relieved from liability for negligence in the discharge of their duties. Section 152 of the (English) Companies Act renders void any such provision, whether contained in the Articles of Association or in any contract with a company or otherwise, for exempting any person (whether an officer of the company or not) employed by the company as auditor from, or indemnifying him

against, any liability which by virtue of any rule of law would otherwise attach to him in respect of any negligence, default, breach of duty or breach of trust of which he may be guilty in relation to the company. On the analogy of this section it is suggested that the indemnity clauses in the Articles of Association should be declared void. We do not support this suggestion. We recommend, however, that there should be a specific provision of the law rendering officers or auditors of a bank liable for omission to state material facts in their reports and in the presentation of the accounts of a bank.

Remuneration of Auditors.

721. We understand that under the Indian Companies Act the remuneration of auditors is fixed at general meetings of shareholders but that auditors are frequently paid by the management additional remuneration for doing accountancy work or for rendering special professional services and that such remuneration is not brought to the notice of the shareholders. We are of opinion that any payment to any auditor on any account in addition to the amount of remuneration fixed at a general meeting of shareholders shall be invalid unless fixed or confirmed by the shareholders.

Audit of Branch Accounts.

722. Auditors appointed by shareholders of banks do not always audit the accounts of a bank's up-country branches. Sub-section (3) of section 145 of the Indian Companies Act does not lay any obligation on them to conduct such audit. It provides that in the case of a banking company, if the company has branch banks beyond the limits of India, it shall be sufficient if the auditor is allowed access to such copies of and extracts from the books and accounts of any such branch as have been transmitted to the head office of the company in British India. The auditors, therefore, rely on certified returns furnished by branches. It has been suggested to us that such returns should be certified by qualified local auditors at the places where such branches may have been situated. The foreign experts are, however, of opinion that the proposal is not practicable and would be too costly. We agree.

Additional Outside Audit.

723. Several witnesses have expressed the opinion that audit by special examiners, in addition to that carried on at present by professional auditors appointed by shareholders, will have a very salutary effect. It has been suggested that the duties of examiners appointed for such outside scrutiny should be not merely to examine the accounts of a bank, but also to appraise its financial position and to suggest ways to improve the latter. On the other hand, the proposal is opposed by some witnesses on the ground that such a

system of audit would tend to throw on the outside examiners the responsibility which should be borne by the management and the directorate. Any form of control or inspection which should in any way detract from the responsibility of the management is in their opinion obnoxious. We concur in this opinion. The suggestion for the appointment of outside auditors appears to have been the result of the experience of failures of banks. Such failures were, however, mainly due to laxity of management and supervision, and the institution of an outside audit would in our opinion leave a loop-hole for an unscrupulous or inefficient directorate to shelter itself behind the screen of such audit. We have already suggested in paragraph 720 that the law should be strengthened in this respect by rendering auditors liable for omission to state material facts.

Inspection.

724. Under section 138 of the Indian Companies Act shareholders of a bank holding one-fifth of the shares issued can apply to the local Government for investigation by inspectors. This proportion, it is urged, is very high and acts as a definite handicap in the case of banking companies having a large share capital. It has, therefore, been proposed that it should be reduced to one-tenth. Considering that credit institutions need all possible protection against any proceedings likely to shake the confidence of the public, we are not in favour of the proposed alteration in the existing provisions of the law. For the same reason we are not in favour of the proposal that applicants for the investigations of banks' affairs by inspectors should be exempted from giving security for payment of the cost of the enquiry. Under clause (3) of section 141 of the Indian Companies Act expenses of the enquiry are payable by applicants unless the Government direct that they shall be paid by the bank. It is suggested that the expenses shall be borne by the State if it results in a prosecution and in all other cases by the bank, unless otherwise directed. We are unable to support this suggestion.

Form of Balance-sheet.

725. There appears to be a general demand that balance-sheets should contain more information than what is embodied therein at present. Form F of the balance-sheet prescribed by the Indian Companies Act is not considered comprehensive enough; and it is suggested that the manner in which accounts are drawn up at present leaves much to be desired, because even those who are conversant with account-keeping are unable in many cases to gauge from the balance-sheets the actual position of a bank concerning assets and liabilities. This, it is urged, is one of the reasons why many people hesitate to rely upon balance-sheets of banking institutions. Some suggest that balance-sheets should be published at

least once a year in a recognized form. Others suggest that there should be half-yearly, and a few even monthly, balance-sheets in prescribed forms. In addition, it is suggested, a bank should issue a fortnightly or monthly statement of its liabilities and assets in a form prescribed by the Reserve Bank or by the Government of India. Several witnesses have suggested that foreign banks working in India should also be required to publish their balance-sheets. According to some witnesses, private bankers and firms should also be required to file their annual balance-sheets or statements showing the business done by them during the year. It is stated that the various exemptions and privileges allowed by law to a private limited company are inconsistent with a private limited company doing banking business and using the word "bank" in its name.

726. Among the definite suggestions put forward as regards the revision of the existing form of the balance-sheet the most important are those for obtaining more detailed particulars concerning book debts, loans to directors and officers, and investments.

727. Under 'book-debts' witnesses have asked for numerous particulars regarding the different securities against which the debts are secured, debts guaranteed by directors of banks, debts due by joint-stock companies guaranteed by managing agents, etc. In the form of balance-sheet which we have suggested later on we have not included such particulars. It is not in consonance with the practice followed by banks in other countries, nor is it in the interests of the shareholders to give such details.

Original Form F of balance-sheet included the following item on the Assets side :

> *Book debts* (distinguishing in the case of a bank between those considered good and in respect of which the bank is fully secured and those considered good for which the bank holds no security other than the debtor's personal security, and distinguishing in all cases between debts considered good and debts considered doubtful or bad. Debts due by directors or other officers of the company or any of them either severally or jointly with any other person to be separately stated in all cases).

On the Liabilities side of the balance-sheet was an item "Provision for Bad and Doubtful Debts".

Where a bank had a bad debt which was written off and thereby expunged, there was no question of showing it in the balance-sheet. As a general rule, it was not the practice with the banks to show doubtful debts. If they did not write them off as bad, they created a specific provision out of profits (or out of some existing reserve account) to the exact amount of the doubtful debts. In such a case the debts were for practical purposes

expunged, though, in fact, they still remained on the books; for instance, if a debit against the debtor A.B. had a corresponding credit in the A.B. provision account (or some such account), when a balance-sheet was taken out at the end of the year, the debit and credit referred to would cancel out and the balance-sheet would accordingly not show the doubtful debts or the corresponding provision. In the year 1927, however, the Bombay High Court held that this procedure was illegal and that as long as the debt due by A.B. was not actually expunged, so long must it be shown as a doubtful debt and so long must the provision be shown on the other side of the balance-sheet as "Provision for Bad and Doubtful Debts". As a result of this decision, a notification was issued by the Government of India in that year by which Form F was altered so as to exempt banks from disclosing bad and doubtful debts, if such debts had been provided for to the satisfaction of the auditors. Some of the witnesses consider that the alteration is not an improvement but a "definite slide-back". This change, they say, was effected without consulting the various interests involved. The original provision, they urge, was useful in that it required the banks to bring to the notice of the shareholders the actual amount of bad and doubtful debts and put them on enquiry as to whether such debts were due to carelessness or dereliction of duty on the part of the management. After careful consideration of the question in all its bearings, we are of opinion that bad debts must be written off and that if full provision is made for doubtful debts, the figure of loans and advances should be given in the balance-sheet after deducting the amount of such provision. If, however, this has not been done, any balance of doubtful debts not fully provided for should be shown as indicated in the form suggested by us.

728. It is suggested that loans granted by a bank to a limited company, the directors of which are also directors of the lending bank, should be separately shown and that similarly loans granted to a limited company in which any of the bank's directors are members of the managing agents' firm should also be stated separately. It is further suggested that loans granted by a bank to its directors, managing director, manager and secretary, including the sum repaid by them during the currency of a financial year, should be stated separately in the balance-sheet duly classified and that they should not be mixed up under one heading with the loans granted by the bank to its other officers and employees. We have taken this suggestion into our consideration in drawing up the amended form of balance-sheet.

729. It is also suggested that investments should be classified under important headings such as (1) Government paper, (2) immovable property, (3) debentures, (4) shares or stock of joint-stock companies, and (5) shares in subsidiary companies, distinguishing

between those quoted on a recognized stock exchange and those that are not so quoted. To cover all gilt-edged securities, it has been suggested that they should be classified for the purposes of the balance-sheet as Trustee Securities. It is moreover suggested that investments in shares or debentures of companies in which a director of a bank is interested as managing agent should be clearly specified in detail. Further, it is pointed out that the mode of valuation is very elastic. The bank is not required to show its investments at either cost or market value, with the result that investments are shown in some cases at a valuation which may be neither the cost nor the market value. This position, it is urged, needs improvement, as instances have come to light in which appreciation in the market prices of investments was taken into account before the investments had been realized at those prices. It is, therefore, suggested that it should be made obligatory by law that all investments held by a bank should be valued for the purposes of its balance-sheet at or under market price and that this fact should be clearly stated on the face of the balance-sheet. We had the benefit of the advice of the foreign experts on the question of the basis of valuation of securities. They have expressed the opinion that the valuation should be at cost or market price, whichever is the lower. If, however, this is laid down definitely as a basis for valuation of securities, banks that would, with a view to building up a secret reserve, prefer to show the valuation at a figure even lower than the cost or market price, whichever may be the lower, may be precluded from doing so. We are, therefore, of opinion that in order not to take away such option from them, the prescribed basis of valuation of securities should be that the valuation should not be in excess of cost or market price, whichever is the lower.

730. Having examined the various suggestions placed before us for a revision of the form of balance-sheet, the more important of which have been mentioned in the preceding paragraphs, we have drawn up a form of balance-sheet which in our opinion should meet all practical requirements. It does not require banks to give such details as may be inconvenient for them to divulge and at the same time it embodies particulars which the shareholders are entitled to have to enable them to gauge the financial position of the banks. We recommend that this revised form of balance-sheet, as given below, may be adopted in lieu of the existing form.

FORM OF

Balance-sheet as at

Capital and Liabilities.	Rs.	a.	p.	Rs.	a.	p.
CAPITAL—						
Authorised Capital....shares of Rs.....each	..	..	..			
Issued Capital....shares of Rs.....each	..	..	..			
Subscribed Capital....shares of Rs.....each	..	..	..			
Amount called up at Rs.....per share	..	..	..			
Less—Calls unpaid	..	..	..			
	..	..	..			
Add—Forfeited shares (amount paid-up)	..	..	..			
				..	..	..
LOANS ON MORTGAGE OR MORTGAGE DEBENTURE BONDS				..	..	..
RESERVE				..	..	..
(Details of separate funds, if any, may be given.)						
LIABILITIES—						
Current and Savings Bank Deposits	..	..	..			
Fixed Deposits	..	..	..			
Debts due to Banks, Agents, etc., fully secured against securities *per contra*	..	..	..			
Debts due to Banks, Agents, etc., unsecured	..	..	..			
Bills payable	..	..	..			
Sundry Creditors	..	..	..			
Unclaimed dividends	..	..	..			
				..	..	..
ACCEPTANCES FOR CUSTOMERS *per contra*				..	..	..
BILLS FOR COLLECTION BEING BILLS RECEIVABLE *per contra*				..	..	..
PROFIT AND LOSS—						
Balance as per previous Balance-sheet	..	..	..			
Less—Appropriation thereof	..	..	..			
Balance brought forward	..	..	..			
Profit since last Balance-sheet	..	..	..			
				..	..	..
				..	..	..
CONTINGENT LIABILITIES						

BALANCE SHEET.

_____ Limited.

_____ 19 .

Property and Assets.	Rs.	a.	p.	Rs.	a.	p.
CASH—						
Cash in hand and at Bankers . . .	..	..	..			
Deposits at Call and Short Notice . . .	..	..	..			
Bullion in hand	..	..	..			
INVESTMENTS—				....	..	..
Gilt-edged and Trustee Securities . . .	..	..	..			
Debentures	..	..	..			
Other items	..	..	..			
(*N.B.*—It should be stated here that the above-mentioned securities have been valued on the basis that "the valuation is not in excess of cost or market price, whichever is the lower". If the securities stand at a value in excess of that basis, the amount by which their value exceeds that basis should be given.)				....	..	..
BILLS RECEIVABLE *per contra*				..	..	
LOANS AND OTHER ADVANCES—						
Cash Credits and Demand Advances . .	..	..	..			
Loans	..	..	..			
Bills Discounted	..	..	..			
Sundry debtors and Debit balances . .	..	..	..			
[*N.B.*—The following statement should here be appended :—"These Loans and Advances are shown after deducting full provision for doubtful debts." If this has not been done, any balance of doubtful debts not fully provided for should be shown in (3) below.]				..	..	..
Included in the above-mentioned total are the following :—						
(1) Debts due by directors or officers of the Bank	..	..	..			
(2) Other debts for the repayment of which a director is responsible as guarantor or otherwise . . .	..	..	..			
(3) Doubtful debts not fully provided for.	..	..	..			
				..	..	..
DUE FROM CUSTOMERS FOR ACCEPTANCES *per contra*						
LAND AND BUILDINGS (AT COST) . . .	..	..	..			
Less—Depreciation written off . . .	..	..	..			
				..	..	..
FURNITURE AND FIXTURES (AT COST) . .	..	..	..			
Less—Depreciation written off . . .	..	..	..			
				..	..	..
OTHER ASSETS				..	..	..
PROFIT AND LOSS (giving in the case of a debit balance details as far as possible as in the case of credit balance).				..	..	..
				..	..	..

Profit and Loss Account.

731. The Indian Companies Act does not make it obligatory on joint-stock companies to lay before the company a profit and loss account every year. It has been suggested that banks in India should be required to publish such a statement every year and that the form of this statement should be prescribed. We see no necessity for any statutory provision prescribing the form of the statement. Most of the banks already append a statement of profit and loss account to their balance-sheets. In order that shareholders may have sufficient time to consider and discuss the Directors' Report and the statement of accounts, we recommend that the Directors' Report together with the balance-sheet should be posted to the shareholders not later than ten days before the day of the meeting and that the necessary provision should be made in the Articles of Association.

Form G.

732. Under section 136 of the Indian Companies Act every banking company is required to make a statement in the form marked G in the Third Schedule of the Act, or as near thereto as circumstances will admit, and to display a copy thereof and, until the display of the next following statement, keep it displayed in a conspicuous place in the registered office of the company and in every branch office or place where the business of the company is carried on. The existing form does not, however, include such particulars as are necessary to give an adequate idea of the liabilities and assets of a bank. It has, therefore, been suggested that in lieu of this statement an abstract of the balance-sheet may be displayed by the banks. We concur in this suggestion and recommend that there should be a provision in the Act requiring banks to display a copy of their entire balance-sheet in lieu of the statement in Form G and to continue to display it until the next following statement is published.

Other Statements.

733. Whether in addition to the balance-sheet banks should be required to prepare and publish other periodical returns and statements of their liabilities and assets, and if so, in what form, and at what intervals, is a question which we think had better be left for the Reserve Bank to decide, when it is started. So far, however, as the exchange banks are concerned, we have recommended that in addition to periodical statements provided for in the Reserve Bank Bill, annual statements showing their assets and liabilities relating to their Indian business, as prescribed by the Reserve Bank

from time to time, should be furnished by them to the Reserve Bank as a condition of the grant of licence. Such statements should be exhibited by the exchange banks along with the balance-sheet at all their offices. The returns to be submitted by the banks to the Reserve Bank should be audited in such manner as may be prescribed by the Reserve Bank.

Annual General Meeting.

734. Section 76 of the Indian Companies Act requires that a general meeting of a banking company shall be held once at least in every year and not more than fifteen months after the holding of the last preceding general meeting. It has been suggested that for computation of time a distinction should be made between the ordinary annual general meeting and the extraordinary general meeting and that the annual general meeting to pass the balance-sheet, accounts, etc., must be held not only once at least in a calendar year but also not later than 12 months (instead of 15 months as at present provided) from the date of holding of the last annual general meeting. We are of opinion that it should be sufficient if it is provided in the proposed Bank Act that the annual general meeting of a bank shall be held not later than three months after the close of the year.

(4) LIQUIDATION AND AMALGAMATION.

735. If a Canadian Bank fails to meet any of its liabilities as they accrue, it is taken charge of by a "Curator" appointed by the Canadian Bankers' Association. If within 90 days he is able to restore the solvency of the bank, it may resume business; otherwise the bank may be wound up. During the first three months of a bank's suspension the stock-holders have a chance to raise funds and to restore the bank to solvency. If they fail, the Curator gives place to a liquidator. It should be possible for a bank in India which finds itself involved in difficulties to be reconstructed or amalgamated with a strong one. Timely assistance in such cases often averts disaster to all concerned. We, therefore, recommend that the law should permit a temporary moratorium on the recommendation of the Reserve Bank to prevent untimely and compulsory liquidation of a bank which is in difficulties.

736. Amalgamation and reconstruction must remain a matter of free negotiation and no legislation can assist in what would be an arrangement of mutual interest to the parties concerned. It is, however, suggested that the agency most competent to foster a movement for amalgamation is an Association of Bankers started on the lines of those in Canada and Australia. Others suggest the instrumentality of the Imperial Bank of India or the Reserve Bank of India. It is also suggested that if a scheme for amalgamation

or reconstruction falls through, the Reserve Bank or an Association of Bankers, if such an Association exists, should be charged with the duty of giving, after examination of the assets of the insolvent bank, a guarantee to facilitate advance payment to depositors, as was given by Government in the case of the Alliance Bank of Simla. We are of opinion that it should be one of the functions of the Reserve Bank, when established, to lend its advice and co-operation in cases of amalgamation or reconstruction of banks which are in difficulties.

737. It has been suggested that there should be a provision in the Bank Act requiring that there can be no amalgamation of banking institutions without the permission of the Central Banking Institution of the country. We see no necessity for any such provision. Generally, amalgamations are not and cannot be carried out secretly. The approval of the shareholders of both the institutions has to be obtained and wide publicity is given to the proposal for amalgamation before it is effected. It is primarily a matter for the shareholders to decide and any interference with their obvious right to dispose of their property as they think best would, in our opinion, be unwarranted.

Appointment of Liquidators.

738. It is superfluous to stress the desirability of selecting an independent person as liquidator. One of the duties of a liquidator is to examine the affairs of a bank and to take such action against its officers, auditors or directors as may be necessary in the light of such examination. It has, therefore, been suggested that no person should be appointed liquidator of a bank if, before or at the time of appointment, he was its director, officer or auditor, or held any other place of profit under the bank. We, however, do not recommend any legal provision expressly prohibiting of such an appointment inasmuch as in certain cases, particularly in the case of voluntary liquidation, it may be considered desirable and expedient to appoint as liquidator a person connected with the institution concerned and conversant with its affairs.

739. It has been represented to us that at present creditors do not possess any effective control over the liquidation of an insolvent bank, although their stake is probably the largest. The position in England in regard to the question of appointment of a liquidator is as follows :

> "Where it is proposed to wind up a company voluntarily, the directors of the company, or, in the case of a company having more than two directors, the majority of the directors may, at a meeting of the directors held before the date on which the notices of the meeting at which the resolution for the winding up of

> the company is to be proposed are sent out, make a statutory declaration to the effect that they have made a full inquiry into the affairs of the company, and that, having so done, they have formed the opinion that the company will be able to pay its debts in full within a period, not exceeding twelve months, from the commencement of the winding up." (Section 230).

A winding up in the case of which a declaration has been thus made and delivered to the Registrar of Companies in accordance with the provisions of the Act is referred to in the Act as "a member's voluntary winding up" and in such a case the right of appointing a liquidator vests in the company. A winding up in the case of which no declaration has been made and delivered as aforesaid is referred to in the Act as "a creditor's voluntary winding up". In such a case the creditors and the company may at their respective meetings nominate a person to be liquidator for winding up the affairs and distributing the assets of the company. If the creditors and the company nominate different persons, the choice of the creditors prevails and the person nominated by them becomes liquidator, provided, however, that any director, member, or creditor of the company may apply to the court for an order either directing that the person nominated as liquidator by the company shall be liquidator instead of or jointly with the person nominated by the creditors, or appointing some other person to be liquidator instead of the person appointed by the creditors (section 239). Similar provisions are advocated in regard to the winding up of banks in India. We consider, however, that the object in view will be met by a provision that in the case of voluntary liquidation of a bank the appointment of a liquidator shall be made by or with the approval of the Board of Directors of the Reserve Bank.

740. It is also suggested that in the case of compulsory liquidation there should be provisions on the lines of the English Companies Act for safeguarding the interests of creditors by the supervision of a committee of inspection or where there is no committee of inspection by the Board of Trade. We bring this suggestion to the notice of Government with a view to such action being taken in the matter as may be considered suitable.

Committees of Inspection.

741. In the case of compulsory winding up, as well as creditors' voluntary winding up, of a company in England, the (English) Companies Act, 1929, provides for the appointment of a committee of inspection consisting of creditors and contributories of the company, or persons holding general powers of attorney from them, in

such proportions as may be agreed on by the meetings of creditors and contributories, or as, in case of difference, may be determined by the court (sections 199 and 240). It has been represented to us that in the matter of liquidation of the Alliance Bank of Simla the committee of investigation appointed by the creditors of that bank was powerless as it did not carry any such legal status, and a suggestion has been made that the Bank Act should provide for the appointment of statutory committees of inspection as in England. We accordingly recommend that provision should be made in the proposed Bank Act for the appointment of committees of inspection in the case of compulsory as well as voluntary liquidation of a bank.

Protection of special classes of depositors.

742. It has been suggested that depositors of small amounts should be given protection and preference by law and that in case of liquidation savings deposits should be given priority over other deposits. It is also suggested that banks should be required by law to hold in reserve 50 per cent of their current deposits, 25 per cent of savings deposits and 12½ per cent of fixed deposits; that amounts held by a single individual in current account and savings bank account up to Rs. 500 should be exempt from attachment under civil court decrees; that a special class of deposits called "provident fund deposits" or "specific purpose deposits" may be created and that these deposits should be given priority in case of failure of a bank with which such deposits are lodged. We are, however, not in favour of any preference being given to any class of depositors.

Liquidation of non-Indian banks.

743. It has been suggested to us that special safeguards should be provided for protecting the interests of Indian depositors and creditors in the event of winding-up of non-Indian banks. We may mention that the view of the foreign experts on this question is that although on principle it would not be unreasonable to make such a provision, it would not be wise to do so inasmuch as, if every country where a foreign bank were working did the same, the bank would have to split up its assets against its liability in several countries and the position of the whole institution and perhaps of all the creditors would be weakened. We have carefully considered the difficulties pointed out by the experts, but having regard to the peculiar conditions prevailing in this country we recommend that there should be some arrangement under which the Indian creditors of a non-Indian institution taken into liquidation should have a prior claim on its assets in India and should also share in the general distribution of its assets outside the country should there be a shortage in the assets held in India.

Acquisition of controlling interest in banking institutions.

744. It is proposed that banks should be prohibited by law from acquiring a controlling interest in other banking institutions without the disclosure of such information to the Central Banking Institution. It is also proposed that any party, firm, institution or company which is non-Indian should be prevented from acquiring a controlling interest in any bank or company registered in India. We are unable to support these proposals as we hold that it is a matter for the shareholders to decide.

Protection of banks from unjust attacks.

745. The desirability of protecting banking institutions against wild rumours and unjust attacks has been very forcibly brought to our notice. Several witnesses are in favour of some protection being given to banks against credit-wreckers and have suggested that there should be a provision in law to the effect that a certificate should be obtained from the Advocate General or from the Registrar of Companies before any one institutes criminal proceedings against a banking company. Others, however, consider that such a remedy would be worse than the disease. The Advocate General would only consider whether there is a *prima facie* case and if he certified a prosecution, the position of the bank would become more serious and much worse than under the existing conditions. Moreover, it cannot be expected that the application for a certificate would be kept secret, so that even if the suggested remedy were provided for by law, it would prove inefficacious. We are inclined to believe that concealment in such a case would have a more harmful effect than a full disclosure. While, therefore, we are not in a position to suggest any legal remedy, we leave it to the legislature to consider whether any practical remedy can be devised to protect banks from frivolous proceedings.

746. It is suggested that proceedings against banks should be conducted *in camera*. We find that under the present procedure the magistrate concerned has the power to conduct the proceedings *in camera* and to make sufficient enquiries before a process is issued.

747. It has been represented to us that a greater danger to banks from discontented shareholders is the facility given by clause VI of section 162 of the Indian Companies Act under which an application may be filed for the winding-up of a company "if the court is of opinion that it is just and equitable that the company should be wound up"; and that the panic created by such an application is likely to be greater than a criminal suit against the directors on technical grounds. It is, therefore, suggested that the clause should be amended so as to exclude banks and other credit institutions from its operation. We cannot support this suggestion.

Bear Raids on shares.

748. Sometimes a bank's credit is sought to be damaged by a bear raid on its shares on the Stock Exchange. It is suggested that this can be effectively checked by requiring that every seller of banks' shares shall give the actual numbers of shares at the time he sells them. This suggestion is based on Leeman's Act in England (The Sale and Purchase of Bank Shares Act, 1867) which curbs speculation in bank shares by insisting on the numbers of the shares or stock bought or sold being specifically stated in the contracts, or if there are no distinguishing numbers, the names of the registered proprietors being mentioned. We regard this as a measure of great importance for the protection of banks and recommend that there should be a provision in the Act to the effect that it should be incumbent on every seller of banks' shares to give the actual numbers of the shares at the time he sells them.

CHAPTER XXVI.

BANKING EDUCATION.

Recognition of studies in commercial subjects including banking.

749. Until the end of the last century commercial education appears to have received little attention in this country. Banking education, which is a branch of higher commercial education, was not even thought of. During the last three decades, however, public interest in the question has been aroused and considerable impetus has been given to the systematic study of commercial subjects, including banking, which have been incorporated by almost all the Indian Universities in the curricula for their examinations. In nearly all the provinces commercial subjects also form part of the optional subjects which may be taken at the various examinations held at the end of the intermediate and secondary school courses. Several schools and colleges specializing in commercial subjects have been established in the principal cities. The number of students attending such institutions and reading either for a diploma or a degree has been steadily increasing. In the year 1928-29 there were 7 colleges with 1,599 students and 149 schools with 7,069 students imparting education in commercial subjects. The distribution of schools and colleges by provinces is shown in Annexure A.

Existing Institutions providing facilities for commercial studies.

750. The institutions providing facilities for the study of commercial subjects, including banking, may be classified as follows :—

(1) Commercial schools preparing students for a certificate or diploma.

(2) Secondary schools where commercial subjects are taught as optional subjects or to which separate commercial classes are attached.

(3) Universities awarding either a special degree in Commerce, or the general arts degree, after a study of economics and other cognate sciences. Theoretical instruction for the B.Com. degree is imparted either in a special Department of the University or at a separate institution specializing in such subjects and affiliated to the University. Examples of the former type are furnished by the Departments of Commerce

established by the unitary teaching Universities of Lucknow and Allahabad; and of the latter type by the Sydenham College of Commerce of the Bombay University and the Hailey College of Commerce affiliated to the Punjab University.

(4) The Indian Institute of Bankers.

The Sydenham College of Commerce.

751. The question of recognizing the scientific study of commerce was raised in Bombay in the year 1905. After investigation of the question through a Committee, the Senate of the Bombay University adopted, in the year 1912, the Committee's recommendation advocating the institution of a degree of Bachelor of Commerce as the most suitable method of encouraging commercial education. In the following year the Sydenham College of Commerce and Economics was inaugurated by the Government of Bombay for training students for the degree. Under the old regulations of the University the subject of "Special Branches of Economics", which included elements of Banking and Currency, was one of the compulsory subjects prescribed for the examination for the B.Com. degree. The new regulations adopted in 1925 give prominence to the subject of Indian Currency, Banking and Exchange for the B.Com. examination. Those who take Advanced Banking as their optional subject are required to acquire a knowledge of the Credit Organisations of the principal countries of the world, Banking Law and Practice and Currency Problems. Candidates are required to have a fair knowledge of Economics, Accounting, Commercial Geography, Public Finance, Mercantile Law, Modern Economic Development, Trade and Statistics, and of one of the following optional subjects :—

(1) Advanced Accounting and Auditing,

(2) Advanced Banking, including Banking Law.

(3) The Organization of the Indian Cotton Industry.

(4) Actuarial Science,

(5) Economics of Transport.

752. The Sydenham College of Commerce is so far the only institution preparing students for the B.Com. degree that has been affiliated to the Bombay University. The first examination for this degree was held in the year 1916 when 50 candidates sat for the examination. The number of candidates that appeared for the two examinations held in 1930 was 153. Compared with the number of candidates for other examinations, this increase in the

entries for the examination for the B.Com. degree during the period of fifteen years appears to be very small, as will be seen from the following table :—

Year.	No. of candidates for the degree of		
	B.A.	B.Sc.	B.Com.
1916	780	55	50
1930	1,494	933	153

It would appear from a study of these figures that either graduates having the B.Com. degree are not much in demand or that the initial salary offered to this class of graduates and their prospects are not such as to attract many students. The statistics regarding the other Universities in India also show that the B.Com. degree has not much attraction for youths at our universities (*vide* Annexure B).

753. Besides preparing students for the University examination, the Sydenham College of Commerce arranges from time to time for special courses of evening lectures being delivered at the college on subjects of interest to those engaged in banking. Among the subjects dealt with are banking, banking law, stock exchange securities, foreign exchanges and bankers as lenders. These lectures are open to bank employees and others either free of charge or on payment of a small fee.

Government Commercial Institute, Calcutta.

754. The Government Commercial Institute in Calcutta also imparts education in banking by courses of evening lectures. As early as 1906 the Calcutta University recognized Banking and Currency as special subjects for the M. A. degree in Economics. It has also since instituted a Bachelor of Commerce degree, the syllabus for which covers Accountancy, Auditing, Banking and Currency, Business Organization, Inland and Foreign Trade, Transport and Commercial Law. This is followed by the M. A. degree in Commerce, which requires a higher form of training in these subjects.

Other Institutions.

755. In some of the University centres, such as Bombay, Calcutta and Lahore, certain commercial institutions affiliated to the Universities prepare students for the degrees instituted by them. For instance, the Universities of Lucknow, Allahabad, Punjab and Agra which have during the last decade instituted the Commerce degree, have made arrangements to prepare students for the degree courses, which include Banking. At Lahore, the Hailey College of Commerce and Economics has recently been

established more or less on the model of the Sydenham College of Commerce in Bombay. The Madras University has a faculty of commerce and has made provision for a degree in commerce, but there are no arrangements for preparing students for the degree in any of the constituent or affiliated colleges. Provision is, however, made by the University for a post-graduate course extending over a year leading to a diploma in Economics and Banking, and Co-operation and Rural Economics form an important part of the diploma course. It is in our opinion desirable that in every University there should be some arrangements for the training of students at recognized institutions for the degree courses.

Elementary instruction in commercial subjects.

756. In nearly all the provinces commercial subjects are included among the optional subjects for the examinations held at the end of the secondary school course. Most of the commercial schools provide courses in shorthand, typewriting, book-keeping, banking and commercial geography, but a few have a larger variety of courses. There is a Government Commercial Institute at Madras and also at Calicut. There is also a School of Commerce at Vizagapatam, which prepares students for the Government Technical Examinations in shorthand, book-keeping, theory and practice of commerce, banking and commercial geography. In the year 1926 the Government of Bombay started two commercial secondary classes attached to the ordinary secondary schools at Bombay and Broach and instituted the Government Commercial and Clerical Certificate Examination. For the training of students for this examination they recognized several private institutions also. About the same time the Indian Merchants Chamber, Bombay, instituted the examination for a diploma in Commerce, similar to the Certificate of the London Chamber of Commerce. In the syllabus of studies for both these examinations banking occupies an important place. In Bengal, apart from the University commercial classes, the most important commercial institution is the Government Commercial Institute, Calcutta. Several important changes have taken place in the Punjab during the last few years. The Institute of Commerce, Lahore, was closed and in its place a two years' training class was started for matriculates at the Central Model School. Pre-matriculation classes were closed and post-matriculation classes opened at Amritsar, Jullundur, Lyallpur, Multan, Jhang, Sialkot, Ambala, Rohtak and Ludhiana. In the province of Delhi there are seven commercial classes attached to Secondary Schools and the Commercial High School has been recognized by the Secondary Board of Education. In the United Provinces and in Bihar and Orissa there are very few commercial schools; in the Central Provinces and Assam there is none.

ACTIVITIES OF THE INDIAN INSTITUTE OF BANKERS.

757. Recently the Indian Institute of Bankers has entered the field of banking education. The Institute was established in the year 1928 with the following among other objects :—

(1) To encourage the study of the theory of banking and for that purpose to institute a scheme of examinations and to give certificates, scholarships and prizes.
(2) To promote information on banking and kindred subjects by lectures, discussions, books and correspondence with public bodies and individuals.
(3) To collect and circulate statistics, and other information relating to the business of banking in India.
(4) To maintain a library consisting of works on banking, commerce, finance, political economy, and kindred subjects.
(5) To print and publish such newspapers, periodicals, books, or leaflets as the Institute may consider advisable.

758. It is the aim and intention of the Council of the Institute that it should develop and function on lines similar to those of the English Institute of Bankers, the activities of which are mainly educational. The Institute has already inaugurated an annual Associate Examination. The examination was held in April 1930 at no less than 43 centres. The number of entries for Part I of the Institute's Examination was 954 and for Part II 191, the number of successful candidates being 421 and 114 respectively.

759. The standard of this test is intended to be in all respects equal to that of the examinations held by the English Institute. While, however, the examinations conducted by the latter are mainly adapted to the needs of bankers in Great Britain, the examinations of the Indian Institute will closely conform to the needs of bankers in India. There is no reason why Indian youths living in India and working in Indian institutions should now read for the examinations of institutions outside the country, when there are ample arrangements for such studies and examinations in India.

760. In England most of the banks give a grant towards the expenses of the tuition of their employees reading for the Associate examination, and they also give substantial rewards to those who pass the examination. In some of the banks the names of such employees are taken out of the routine staff list and filed in a special list marked "for promotion". Similarly, in India importance will, no doubt, be attached to the professional qualification which the Associate certificate implies. The examinations of the Institute are already recognized by some of the banks and it is intended that a high standard of examination shall be maintained.

761. It is necessary to add that the Institute merely holds examinations. It is not a teaching body. It does not maintain any school or staff for teaching, nor does it give any grant-in-aid to any educational institution for conducting classes. The conduct of examinations is not, however, the only branch of the Institute's activities. In addition, it arranges for a series of lectures being given by experts on various subjects of interest to bankers, particularly with a view to assisting members in their studies for the Associate examination. To keep the members in different parts of India, Burma and Ceylon in touch with the activities of the Institute, a journal is issued every quarter and is supplied free of charge to all members. Besides furnishing information relating to the affairs of the Institute, the journal contains articles by important persons in the world of finance. Facilities for reading and studying literature on banking, finance and kindred subjects have been provided by the establishment of libraries and reading rooms for members at Bombay and Calcutta. A nucleus of a library has also been formed at Madras. It is the aim of the Council to open additional centres at important places and to provide similar facilities at such centres. The number of members is now over a thousand and is steadily increasing. Thus within a short time after its establishment the Institute has extended its activities in different directions, and it gives promise of being a powerful factor in the banking system of the country, particularly in the sphere of banking education. We have only one suggestion to offer for the extension of its activities. It is, in our opinion, desirable that arrangements should be made by the Institute for University lectures and courses of instruction at different centres in the subjects included in the curriculum of the Institute.

Co-ordination of effort between Banks and Educational Institutions.

762. No co-ordination of effort exists at present between the Universities and the banks in India. The Universities do not appear to have devoted much thought to the question of giving their commercial courses a more practical turn than is the case at present. On the other hand, banks do not appear to attach much value to the theoretical instruction in banking given in the Commercial schools and colleges, nor do they provide facilities for supplementing such instruction by practical training. A few banks give facilities to students preparing for the examination of the English Institute of Bankers, but this is rather to enable the students to be admitted to the examinations than to train them with a view to recruitment in the service of the banks.

763. As a rule banks in India do not provide any special facilities for the training of boys in banking business. Judging from the

information available to the Committee, with the exceptions of the Imperial Bank of India and the Peoples Bank of Northern India, there is no bank in the country that has a definite scheme for training young men in banking business with a view to recruitment in the bank's service. Under the Probationers' scheme of the Imperial Bank of India, preference is given to candidates who have obtained the degree of Bachelor of Commerce, to graduates of a recognized University of the United Kingdom or India, to persons who have passed the examination of the Institute of Bankers in England, Scotland, Ireland or India, and to those who have had previous banking experience. Facilities for training are given to selected candidates. Staff officers have in the past been largely recruited in England, but such posts are now to an increasing extent being filled by promotion. It may be noted, however, that some of the witnesses have complained that the process of Indianisation of the superior staff has been far too slow.

The Scheme of the Peoples Bank of Northern India is designed to select suitable candidates for employment with a view to their being trained in the theory and practice of banking. The selected candidates are required to join the school maintained by the bank. After a time they are again examined and the final selection is made.

764. It is the opinion of some that the practical training received by employees in a bank in the course of their employment meets all the requirements of the bank and that it is not particularly necessary to institute theoretical courses of study in banking in schools and colleges. Some of the witnesses have, however, expressed the opinion that the development of banking has been hindered owing to the paucity of Indians trained in the theory as well as in the practice of banking. Owing to lack of co-ordination between the banks and the educational institutions there are at present, on the one hand, many men trained in banks in the business of banking but devoid of sound general education and sufficient knowledge of the theory of banking, so that they are not considered fully qualified to hold posts of bank manager or assistant manager. On the other hand, there are graduates well versed in theory but devoid of practical knowledge, who are not readily taken up by banks.

765. It has been suggested that the Institute of Bankers should serve as a liaison between the banks and the Universities in connection with the training of youths in banking. Close co-ordination of effort is essential on the part of the Universities, the banks and the institutions engaged in imparting or promoting banking education (1) to make the courses practical; (2) to provide for practical training; and (3) to arrange for the employment of trained youths in the banks. In these directions there is much scope for useful work for the Institute of Bankers. For instance,

it can make useful suggestions to the Universities concerning the courses of studies and may approach educational institutions and secure their co-operation in arranging courses of lectures of special interest to bank employees. It may also arrange to receive inquiries from its members for suitable candidates for vacancies in their banks and pass on such enquiries to the educational institutions concerned. We approve of the suggestion.

Higher training Outside India.

766. Generally speaking, higher training outside India is not necessary for youths aspiring to a successful career as bankers. It appears to be the general opinion that there are better opportunities for bank probationers and bank assistants to get a sound training in this country than in England. An Indian student passing the examination of the London or the Indian Institute of Bankers, with a few years' practical training in India, would, it is stated, be better qualified for, and prove more efficient in, the discharge of his duties than one who works in a branch office of a London bank and returns to India with the idea of having received special training outside India. An Indian apprentice in an English Bank would not ordinarily have the opportunity to get an insight into higher banking problems. He would be more or less employed on routine work, and the knowledge gained cannot be of material assistance to him in his future career. The best results could only be obtained if practical knowledge and experience were combined with theoretical study. It would, however, be desirable, if it could be arranged, to send young Indians possessing high qualifications after they have had a good preliminary training in banks in India for the study of advanced banking, especially for the practical study of international exchange and other subjects connected with currency and, exchange in exchange banks abroad. A note of warning may, however, be sounded. Deputing recruits of mediocre ability for the study of banking in foreign countries would serve no useful purpose. Only students possessing high qualifications and having good practical banking experience would be able to take real advantage of such studies, provided they were given adequate facilities.

767. It is suggested that, should it be found difficult to secure for Indians adequate facilities for such advanced studies in foreign banks abroad, Government might make special arrangements for such training and that exchange banks doing business in India should be required to provide the necessary facilities in return for the business facilities they enjoy in India. It is also suggested that scholarships should be given by Government and by banks to employees of banks proceeding to Europe for such studies.

STUDY OF THE INDIGENOUS BANKING SYSTEM.

768. The practical training of youths desiring to take up indigenous banking as their profession begins early in the firm of indigenous bankers. It is held by some that such training leaves little to be desired. Others, however, are of opinion that a knowledge of the theory and broad principles of banking would be decidedly an advantage to such bankers. It has, therefore, been suggested that banking and commerce should be introduced as an additional subject in secondary school classes. The Central Provinces Committee recommend the addition of banking and commerce as an optional subject in the vernacular and Anglo-vernacular middle schools and high schools so as to enable sons of bankers and moneylenders to acquire knowledge of modern methods of banking.* We recommend that, wherever possible, instruction should be given in secondary schools in elementary accounting, discount, co-operative principles and elements of banking and that the subjects should be taught systematically wherever introduced.

769. The All-India Co-operative Institutes' Association consider that the Indian Institute of Bankers should arrange, in different important centres, for courses of lectures in the vernacular of the community to which the local indigenous banker belongs and to hold special examinations, on the result of which certificates could be awarded. They are inclined to believe that it is possible that such an arrangement would attract the sons and relatives of indigenous bankers who would like to have some theoretical grounding in their profession in their own vernacular, in addition to the practical training that they might be receiving in their own *pedhi* (office). The suggestion is one worthy of consideration by the Institute.

770. It is also suggested that a paper on banking should be set at the vernacular final examination and that there should be some arrangement for the continuance of the study of indigenous banking beyond the high school course. We are not in favour of this suggestion, nor do we recommend the proposal that a special chair for the subject of indigenous banking may be instituted in the universities. There is at present no chair even for modern banking and it would be idle to press for a chair for indigenous banking at this stage. Moreover, there are hardly any special features of indigenous banking that could be taught with advantage at the Universities.

771. An interesting suggestion has been made by the Managing Governor of the Imperial Bank of India that sons of the indigenous banking families may be encouraged to join joint-stock banks. Asked whether the competition between indigenous bankers and

* Central Provinces, para. 2134.

joint-stock banks would not militate against the proposal, he stated that in spite of competition such an arrangement should be feasible. We are of opinion that, if possible, it would be very desirable to introduce such an arrangement, as it would accelerate the process of modernizing the methods of indigenous banking while retaining its identity.

Study of Co-operative Banking.

772. One of the principal complaints heard from the supporters as well as the critics of the co-operative movement is in regard to the lack of understanding of the principles of co-operation among the general body of members of co-operative societies and the scarcity of trained men for employment on the staff of co-operative organizations.* The remedy suggested is "teaching, more teaching and still more teaching". It has, no doubt, long been the policy of the co-operative departments in the different provinces to train members in the principles of co-operation and rural finance, but almost all the Provincial Committees have pointed out that a good deal remains to be done in that direction. We desire to emphasize the need for such education and training on an extended scale.

773. There are some facilities for education in co-operative banking in the existing system of secondary and university education in the country. For instance, co-operation is included in the Economics course for the B.A. degree and for the B.A. Pass and Honours courses. Most of the Universities prescribe a special paper or papers on co-operation for the examination for the degree of Master of Arts. It is also an optional subject for the Intermediate course. There is, however, no regular school or college where training in co-operative finance and banking is imparted, although in the Economics departments of some of the Universities agricultural economics and co-operative banking have been receiving increased attention. The curricula for the examination for the degree of B.Com. and other commercial examinations and for the Associate examinations of the Indian Institute of Bankers do not specifically include co-operative banking. It has been suggested that considering the importance of this branch of banking, particularly to this country, it should find a place in the curriculum of studies for the examination of the Institute of Bankers, at least as an optional subject. We commend this suggestion for the consideration of the Institute.

774. In the Sydenham College of Commerce of Bombay a separate paper is set to candidates aspiring for service in co-operative banks. The Bombay Provincial Co-operative Institute also holds an examination for the Banks' Officers' Diploma. Candidates

* *Vide* Reports of the Townsend Committee (paragraph 51), of the Linlithgow Commission (paragraph 373), and of the Provincial Banking Enquiry Committees (Bombay, paras. 208 and 209, Madras, para. 340, Punjab, paras. 151 and 152, and Bihar and Orissa, para. 291).

for the co-operative bank managers' and bank inspectors' examinations, conducted by the Provincial Co-operative Institute, Bombay, have to undergo a course of practical training at the Provincial Bank and its affiliated institutions for which facilities are provided by these banks. Apprentices are entertained by this Bank and also by some other banks. It is believed that this system has proved useful in training junior workers for all grades of co-operative institutions. The Institute holds classes for these examinations and has established three co-operative schools in Gujerat, Maharashtra and the Karnatak where, among other courses, special courses are arranged for preparing candidates for the posts of central co-operative banks' inspectors and urban co-operative banks' secretaries.

775. In Madras also arrangements have been in existence for the last three or four years for imparting training in co-operation. There are at present seven training centres at work. The one in the city of Madras is attached to the Government School of Commerce and admits only graduates, preferably those who have graduated in economics. Besides this institution, there are six training schools in the mofussil which provide shorter courses in the same subjects, and admit for training not only graduates and intermediates, but also those who hold the secondary school leaving certificate. We understand that the syllabus now in force is undergoing revision, and that co-operative production and co-operative marketing have been included in the new syllabus. The activities of these institutions are co-ordinated by a Central Committee consisting of a representative from each of the training institutions, and two educational experts co-opted by them, with the President of the Provincial Co-operative Union and the Registrar of Co-operative Societies as ex-officio members. The Government of Madras bear the entire cost of the institute in the city and subsidize the mofussil institutes, besides lending the services of a few departmental officials to teach some of the subjects. The Madras Provincial Co-operative Bank trains 3 or 4 apprentices every year for higher appointments in co-operative central banks or district federations. Some of the district co-operative federations, are arranging to have, with the aid of a Government subsidy, peripatetic instructors who would go round lecturing to the villagers singly or in small groups.

776. The Madras Committee suggest* that the difficulty of finding persons to carry on the business of co-operative sale societies may be mitigated by introducing closer study of the marketing of agricultural produce in the co-operative training institutes in the mofussil and in the Central School in Madras. It is not essential that such persons should be trained in the technical methods involved in growing the crops but, it is urged, they must be taught

* Madras, para. 207.

and, if possible, given practical training in the technicalities of trade in the country and also in the methods which have been successful in organizing co-operative marketing in other countries. We approve of this suggestion and recommend that closer study of marketing of agricultural produce may be introduced in the co-operative training institutes. The co-operative institutes can do a great deal to assist marketing by investigating through their permanent staff marketing conditions and by collecting statistics of prices of produce and cost of production.

777. The report recently published on the system of training co-operative officers in the Punjab and the United Provinces contains interesting details concerning the training classes conducted at Gurdaspur and Lyallpur in the Punjab and at Partabgarh in the United Provinces. The main object of the training class for inspectors at Gurdaspur is to impart thorough knowledge in the theory, law and practice of co-operation, rural economics and other allied subjects, to those who seek employment in the co-operative department and to equip them fully for rural reconstruction work. Since 1918 candidates have been selected from members of the notified agricultural tribes (who are generally M.A.'s or graduates with first class honours in Economics or in Agriculture) as it is considered that in propaganda and in missionary and educational work an intimate acquaintance with the life of the cultivators and the artisans, who are to be approached, and sympathy with their outlook is essential. The candidates receive a course of intensive teaching in Rural Economics and Law and Theory and Practice of Co-operation, Banking and Finance. A terminal examination is held, the standard of which corresponds to that of the examination for the M.A. degree of the Punjab University. Just after the terminal examination candidates are sent to the central banks to study their methods of working and account-keeping. A permanent inspector is also required to attend the Rural Economy class at Lyallpur for a month. He must continue his studies as long as he is in service. Refresher courses are annually held in circles of Assistant Registrars. An inspectress has been appointed to work among the women of the province. Classes are also held for the training of candidates for the posts of sub-inspectors.

778. In the United Provinces of Agra and Oudh also there are training classes for officers. The period of instruction, which is both theoretical and practical, lasts for about six months. After the completion of the training at Partabgarh candidates are placed under circle inspectors for practical training for a period of three months. Rural reconstruction is an important item in the syllabus and a refresher course is also arranged for, as in the Punjab.

779. We recommend that co-operative educational institutions should be established in each province. The subjects, which amongst others will have to be studied, are co-operative education,

propaganda, progressive farming methods, banking, accountancy, rural economy, marketing methods and rural industry. We feel that there is need for an All-India Co-operative College also for higher study of co-operation and allied subjects and research work. The Provincial and the Central Co-operative Colleges should not be Government institutions. The question of their establishment should be left to organizations conducted by co-operators themselves, though Government may assist them by means of grants. In this connection we invite attention to the recommendations made by the Royal Commission on Agriculture in India in paragraphs 376 and 389 of their Report regarding the provision of facilities for the study of co-operative developments in India and abroad.

780. As regards recruitment of the staff, the co-operative banks generally prefer B.Coms. or G.D.As. and those who have passed the examinations held by the Co-operative Institutes. It has been suggested by the All-India Co-operative Institutes' Association that appointments should be made on the result of a competitive examination, which should be specially held for the purpose once a year by the Association at different centres and that arrangements for the practical training of the selected candidates should be made in co-ordination with the Registrars of Co-operative Societies and the Provincial Co-operative Banks. We consider it necessary that officers of co-operative central and provincial banks should have received full training at, and passed the examinations of, the co-operative educational institutions mentioned above and that this should be an essential condition governing the recruitment of the staff of officers.

ANNEXURE A.

I.—Commercial Schools by Provinces in the year 1928-29.

Province.	Schools.	Number of pupils.
Madras	44	1,682
Bombay	32	1,804
Bengal	32	1,942
United Provinces	4	203
Punjab	12	328
Burma	11	491
Bihar and Orissa	13	363
Central Provinces	..	..
Assam	..	..
Delhi	1	256
British India	149	7,069

II.—Commercial Colleges by Provinces in the year 1928-29.

Province.	Colleges.	Number of pupils.
Madras	..	..
Bombay	1	283
Bengal	4	486
United Provinces	1	748
Punjab	1	82
Burma	..	..
Bihar and Orissa	..	..
Delhi	..	..
	7	1,599

ANNEXURE B.

Statement of candidates who offered themselves for the B.A., B.Sc., and B.Com. degrees.

Name of University.	Class.	1916.	1917.	1918.	1919.	1920.	1921.	1922.	1923.	1924.	1925.	1926.	1927.	1928.	1929.	1930.
1. Bombay	B.A.	780	1,201	1,393	1,825	1,470	1,268	1,205	1,138	1,204	1,437	1,781	1,515	1,475	1,523	1,494
	B.Sc.	55	77	75	102	121	121	180	206	316	422	560	711	772	870	933
	B.Com.	50	75	91	106	83	55	52	57	77	96	129	133	129	99	153
2. Calcutta	B.A.	..	..	..	..	..	..	..	2,809	2,854	2,624	2,978	3,117	3,430	3,659	3,511
	B.Sc.	..	..	..	..	..	..	..	668	816	969	1,188	1,240	1,244	1,140	956
	B.Com.	..	..	..	..	..	..	..	26	103	108	134	111	105	100	129
3. Allahabad	B.A.	..	..	..	..	..	..	..	..	..	628	698	756	240	299	340
	B.Sc.	..	..	..	..	..	..	..	..	..	250	273	242	119	134	148
	B.Com.	..	..	..	..	..	..	..	..	..	15	50	83	8	18	37
4. Punjab	B.A.	..	.	..	..	..	..	..	..	..	..	..	..	..	2,015	2,192
	B.Sc.	..	..	..	..	..	..	..	..	..	..	..	..	..	169	139
	B.Com.	..	..	..	..	..	..	..	..	..	..	..	..	..	..	35
5. Lucknow	B.A.	..	..	..	..	..	..	117	99	122	125	142	150	171	162	161
	B.Sc.	..	..	..	..	..	..	40	56	67	64	51	82	76	92	94
	B.Com.	..	..	..	..	..	..	13	27	42	52	32	39	36	26	34
6. Agra	B.A.	..	..	..	..	..	..	..	..	..	..	..	..	686	842	935
	B.Sc.	..	..	..	..	..	..	..	..	..	..	..	..	156	180	233
	B.Com.	..	..	..	..	..	..	..	..	..	..	..	..	81	71	83

CHAPTER XXVII.

SUMMARY OF RECOMMENDATIONS.

781. Before proceeding to summarize our recommendations we should like to emphasize that all our recommendations are based on the fundamental assumption indicated in paragraph 16, namely that the administration of the provinces and the central Government would be wholly in the hands of ministers fully responsible to the respective legislatures.

782. We now summarize our recommendations as follows:

(1) In order to provide Government with the information it requires to pursue a progressive and constructive agricultural policy, a Provincial Board of Economic Enquiry should be established in each province. (Paragraph 73.)

(2) Attempts to relieve prior indebtedness may be usefully made in localities where co-operative land mortgage banks exist and the further establishment of these banks should be encouraged where there is reasonable prospect of their successful working having regard to all the local conditions. (Paragraph 87.)

(3) To satisfy the credit requirements of the large class of agriculturists who are outside the co-operative movement and to provide substantial loans to big land-lords, Provincial Land Mortgage Corporations on a joint-stock basis or on the model of the English Land Mortgage Corporation are necessary. (Paragraph 87.)

(4) A scheme of debt conciliation on a voluntary basis is recommended for the consideration of local Governments. (Paragraph 91.)

(5) The case for a simple Rural Insolvency Act should be considered in every province. Certain special provisions in the Act are also suggested. (Paragraph 93.)

(6) The Governments concerned should also explore the possibility and desirability of undertaking other legislation to secure the settlement of debts on a compulsory basis. (Paragraph 94.)

(7) The Punjab Regulation of Accounts Act (1930) is commended to the other provincial Governments for consideration. (Paragraph 116.)

(8) The Usurious Loans Act (1918) is capable of being worked to the advantage of the debtors in many provinces and should be retained and a special report on the working of the Act should be included in the Annual Reports on the Administration of Civil Justice. (Paragraph 116.)

(9) Provisions similar to the following provisions in the English Money-lenders' Act are recommended for introduction in India by legislation in regard to money-lenders as defined in the Punjab Regulation of Accounts Act, 1930 :—

(*a*) No amount shall be charged by the money-lender for expenses, incidental to or relating to the negotiations for or the granting of a loan by a money-lender. If it is found necessary to permit the money-lender in India to recover certain classes of expenditure from the borrower, these should be clearly specified in the legislative enactment.

(*b*) The enhancement of interest for default in repayment should be illegal.

(*c*) No contract for the repayment of money lent by a money-lender shall be enforceable if there is no note or memorandum in writing of the contract made and signed by the borrower or if it is proved that the note or memorandum, mentioned above, was not signed before the money was lent. (Paragraph 122.)

(10) Money-lenders should be induced to join co-operative societies on the condition that they cease lending privately to the members of such societies. (Paragraph 123.)

(11) Where complaints about Pathan money-lenders are common and no proceedings can be taken against them under the ordinary law, Government should take action under Section 3 of the Foreigners' Act or under some special legislation, and deport such money-lending Pathans as are found to be a menace to society. (Paragraph 123.)

(12) Courts should be empowered to dismiss cases brought before them by money-lenders for recovery of sums due from borrowers in distant districts in cases where the borrower is made to sign a promissory note stipulating that the loan shall be repaid in any of the several districts mentioned therein. (Paragraph 123.)

(13) Such indigenous bankers as are engaged in banking proper or are prepared to shed their business other than banking should be eligible to be placed on the approved list of the Reserve Bank in the same manner as joint-stock banks. The Reserve Bank should prescribe a standard which indigenous bankers must satisfy before they can be given the concession recommended. Such indigenous bankers should also agree to have proper books of accounts kept in the usual recognized manner and to have them audited annually by recognized auditors. These books of accounts should also be available to the Reserve Bank for inspection and audit. Such of the indigenous bankers whose deposits do not exceed five times their capital should, during the first five years of the working of the Reserve Bank, be exempt from the rule relating to compulsory

deposits. At the end of that period it would be left open to the Reserve Bank to take such action in the matter as it may consider necessary in order to make its credit policy effective. (Paragraph 139.)

(14) Institutions receiving rediscount facilities from the Reserve Bank should not charge to the public rates which, in the opinion of the Reserve Bank, are unduly high. (Paragraph 141.)

(15) Facilities for remittance of funds at the same rates as are charged to all joint-stock banks should be given to indigenous bankers who are included in the schedule of member-banks of the Reserve Bank. (Paragraph 142.)

(16) The benefits of the Banker's Books Evidence Act should be extended to such indigenous bankers as are placed on the approved list of the Reserve Bank. (Paragraph 142.)

(17) The proposals in paragraphs 137 to 142 should apply equally to money-lenders who satisfy all the conditions prescribed for indigenous bankers. (Paragraph 143.)

(18) The adoption of a more liberal policy by the Imperial Bank of India and other joint-stock banks in granting facilities to the large number of indigenous bankers whose principal business is not banking, or who do not take to banking as their principal business as soon as a Reserve Bank is established, is commended for the sympathetic consideration of these banks. (Paragraph 144.)

(19) The co-operative primary societies should serve as savings banks for their members and promote thrift. (Paragraph 155.)

(20) The present legal provision in section 19 of the Co-operative Societies' Act (1912) giving to the society a prior claim is not satisfactory. The prior claim should be converted into a first charge. (Paragraph 155.)

(21) The proposal that central banks should lend to societies at concessional rates sums up to the extent of the reserve fund in deposit with them is recommended for the consideration of the authorities concerned. (Paragraph 155.)

(22) Central banks should start a bad debt fund and carry a reasonable amount of profits to that fund, in addition to the statutory allocation to Reserve Funds. (Paragraph 157.)

(23) Provincial banks should continue to be bodies incorporated under the Co-operative Societies' Act. The executive head of a provincial bank should be a thoroughly trained banker with competent knowledge of the principles and practice of co-operative credit. (Paragraph 159.)

(24) Provincial banks should not deal directly with primary societies but should consolidate and strengthen their position as financing agencies and balancing centres for central banks. (Paragraph 159.)

(25) The Co-operative Societies Act should be amended so as to provide for the registration of societies on an All-India character or societies operating in more than one province. (Paragraph 161.)

(26) The ordinary co-operative credit societies should confine themselves to dispensing short-term and intermediate credit; long-term credit can be provided only by land mortgage banks. (Paragraph 165.)

(27) In order to popularize the co-operative movement and to promote a sense of responsibility among the members of the society, the official control that now exists in certain provinces should be slackened. (Paragraph 168.)

(28) The need for carefully scrutinizing the economic purpose of the loan and the repaying capacity of the borrower in dispensing co-operative loans is strongly emphasized. Exemptions from repayment should be given only in circumstances of exceptional difficulty and any tenderness in dealing with the defaulting members should be avoided. Repayments of loans should not be restricted to the same period for all debtors but should be fixed according to the special needs of individual borrowers. (Paragraph 170.)

(29) It is strongly recommended that the non-official leaders of the co-operative movement and the officials of the co-operative department should make special efforts in promoting special type societies. (Paragraph 171.)

(30) A special scheme of audit is recommended for the due discharge of the statutory functions of audit imposed on the Registrar. (Paragraph 173.)

(31) The introduction of the normal credit system in co-operative primary societies is recommended. (Paragraph 174.)

(32) Granting credits on current account and cheque transactions should be introduced wherever possible. (Paragraph 174.)

(33) Certain suggestions for a reduction in the present rates of interest charged by co-operative primary societies are recommended for the consideration of Provincial Governments and non-official co-operators. (Paragraph 176.)

(34) If a rural society charges its members a rate higher than 12 per cent. per annum, it should form the subject of careful enquiry by the Provincial Government and the provincial bank concerned and steps should be taken to reduce the rate of interest. (Paragraph 176.)

(35) Special steps should be taken for the efficient and adequate training of both the official and non-official co-operative staff. Endeavours should be made to secure trained secretaries for the societies. (Paragraph 179.)

(36) If the *panchayat* of a society should advance loans in excess of the limits prescribed by the bye-laws of the society or otherwise, they should be held personally liable as guarantors of the loan and the rules under the Act should, if necessary, be amended accordingly. (Paragraph 179.)

(37) Generally speaking, central banks should operate over fairly large areas with a good number of societies affiliated to them. (Paragraph 179.)

(38) The management of a central bank should be in accordance with businesslike and co-operative principles and there should be full-time secretaries and managers of the best character well-trained in banking and co-operation. (Paragraph 179.)

(39) The importance of cash credit and overdraft facilities being generously given by the Imperial Bank of India on proper co-operative paper satisfying the standards prescribed by the bank is emphasized. (Paragraph 181.)

(40) Free remittances of funds for co-operative purposes is of the utmost importance to the co-operative movement and no attempts should be made to curtail those privileges under the rules of the Government of India in this matter. (Paragraph 182.)

(41) As regards remittance facilities for other than co-operative purposes co-operative banks should be entitled to the same privileges as joint-stock banks. (Paragraph 182.)

(42) Loans against produce to members of co-operative societies are of great economic benefit to the cultivators and the encouragement of such loans, subject to storage accommodation being available and subject also to the provisions of the bye-laws of these societies, is recommended. (Paragraph 185.)

(43) When the co-operative movement requires State aid in any exceptional circumstances the State should continue to give temporary aid sufficient to enable the societies to tide over the crisis. (Paragraph 187.)

(44) When a Provincial Government is satisfied that for meeting the needs of the co-operative movement in exceptional circumstances or for the development of the agricultural industry it is necessary to make loanable capital available to the co-operative banks, the provincial Government should, with the concurrence of its legislature, place at the disposal of the provincial co-operative bank such loans as may be necessary to meet the requirements of central banks and primary societies. (Paragraph 189.)

(45) Contributions from Government funds to the expenses of the co-operative movement in backward tracts and among the backward classes should be continued and increased. (Paragraph 189.)

(46) In order to ensure the supply of cheap and adequate credit to agriculture, certain provisions should be made in the Reserve

Bank Act for linking up the co-operative banks with the Central Bank of the country. (Paragraph 191.)

(47) Profits of co-operative societies should be exempt both from income-tax and super-tax. (Paragraph 195.)

(48) The exemption of co-operative societies from payment of income-tax and super-tax on earnings from investments in public securities or land mortgage debentures to the extent such investments are necessary for the purpose of their fluid resources and for the investment of reserve funds as prescribed by the rules is recommended. (Paragraph 196.)

(49) No money should be advanced by co-operative land mortgage banks which is not economically profitable to the borrower and loans should be devoted to the principal objects specified. (Paragraph 218.)

(50) The amount and period of loan should be fixed with due regard to the repaying capacity of the borrower and also to the purpose for which the money is advanced. Loans might be granted for a stated purpose and for stated periods and for the present the maximum period should be 20 years. With sound management the bank should be able to extend the period to 30 years if necessary. Until more experience is gained the amount of individual loan should be limited to a maximum of Rs. 5,000 and in no case should the amount of the loan exceed 50 per cent. of the value of the mortgaged security. (Paragraph. 219.)

(51) The repayment of loans should be by a system of equated payments, but if local conditions require, a system of graduated payments may be adopted, so as to provide for repayment by larger instalments commencing after the investment of the loan on land has resulted in increased profit. (Paragraph 220.)

(52) The working capital of the co-operative land mortgage bank should be derived from share capital and debentures. The share capital should be raised by deduction of 5 per cent of the amount borrowed by members at the time the loan is advanced. In order to ensure the supply of the initial resources wherewith to start the operation of the mortgage bank, it is recommended that the provincial Government should, where necessary, make advances free of interest under a stipulation that the advances should be repaid out of the realizations of the debenture issues. If larger share capital is required with the development of the banks, the supply of such share capital by provincial banks is commended for their careful consideration. (Paragraph 221.)

(53) The proportion of the debenture to the share capital should be left to the discretion of the co-operators in each province but in no case should the value of debentures outstanding exceed the outstanding amount under mortgages given by the borrowers and over which the debenture-holder has a floating

charge. The interest on debentures should be guaranteed by the Provincial Governments for the whole period of their currency. (Paragraph 221.)

(54) Debentures, the interest on which is guaranteed by Government, should be included among trustee securities provided Government is satisfied that adequate arrangements have been made by the bank for the redemption of these debentures at regular intervals. (Paragraph 221.)

(55) If in any province it becomes necessary and appears to be more advantageous for the movement that the Government should purchase debentures of certain value such form of State assistance is recommended. (Paragraph 221.)

(56) The debentures should be issued by a central institution called the Provincial Land Mortgage Corporation and the actual sale of debentures should be made not only by the Provincial Corporation but also by primary land mortgage banks which may be called the district mortgage banks. (Paragraph 222.)

(57) The district mortgage banks should operate over fairly large areas and must not be too small. (Paragraph 222.)

(58) The district mortgage banks should be entitled to obtain the necessary finance from the provincial land mortgage corporation against a transfer of the mortgage securities which should be available to the latter for issuing debentures. (Paragraph 222.)

(59) Provincial co-operative banks should not function, except as a temporary measure, as central land mortgage banks for the province but there is no objection, until the Provincial Land Mortgage Corporation is established in a province, to the provincial bank financing the primary land mortgage banks with long-term capital specially raised for the purpose. (Paragraph 222.)

(60) When an application to a land mortgage bank is made by a member who is also a member of a credit society, the opinion of the credit society should ordinarily be obtained in regard to the advancing of the mortgage loan, though the responsibility regarding the ascertainment of the financial standing of the applicant and the grant of the loan must rest with the land mortgage bank. (Paragraph 223.)

(61) The primary land mortgage banks and the co-operative credit societies should work entirely apart and the transactions of the two should not in any way be mixed up. (Paragraph 223.)

(62) The land mortgage bank should be given the power of foreclosure and sale without recourse to civil courts subject to certain safeguards. (Paragraph 225.)

(63) The amendment of the insolvency law so as to give greater protection to the land mortgage bank against avoidance of mortgage by the unsecured creditors of the insolvent is recommended. (Paragraph 226.)

(64) From a purely banking point of view the removal of all impediments to the free transfer of lands is desirable. It is recognized that other considerations are involved and it is recommended that Provincial Governments and their legislatures should properly weigh the various considerations in shaping their policy. (Paragraph 228.)

(65) An alteration in the Land Alienation Acts so as to give co-operative land mortgage banks right to take possession of land through foreclosure on default of the payment of the instalment of the loan and to sell it is recommended. (Paragraph 228.)

(66) The development of well organized joint-stock land mortgage banks for the benefit of the numerous classes of landowners who cannot be adequately served by the co-operative credit organizations is recommended. (Paragraph 235.)

(67) Normally loans for improvement should be spread over a period of years and only in cases where the amount advanced is very small or the improvement affected is very temporary should the repayment be required within a shorter period. (Paragraph 238.)

(68) Provincial Governments should take steps to minimize delays in the disposal of applications for *takavi* loans and to lessen the opportunities for illegal gratifications. Officers distributing *takavi* loans should be of some standing and should be on the lookout for cases of illegal exactions. (Paragraph 240.)

(69) Where funds are insufficient, advances might be restricted to a smaller number of recipients whose need is the greatest and their requirements might be satisfied in full. (Paragraph 240.)

(70) Loans should be given on a more liberal acreage rate than at present. (Paragraph 240.)

(71) Any laxity in realizations of *takavi* loans is not approved though liberal suspensions and remissions when necessity arises is favoured. (Paragraph 240.)

(72) Dates of repayment should be fixed with due regard to the dates of harvest. Cattle loans should be repaid, if necessary in two *kists* instead of one, and similarly the recovery of loans advanced in times of distress should invariably be effected in more than one instalment. (Paragraph 240.)

(73) When joint bonds are taken the amount due from each individual borrower should be entered separately in the bonds, every attempt should be made to realize from each individual the amount so shown, and joint liability should be enforced only as a last resort and should even then be apportioned as fairly as possible. (Paragraph 240.)

(74) Steps should be taken to remove the general ignorance about the credit facilities available under the Land Improvement and the Agriculturists Loans Acts and the procedure to be followed in securing these facilities. (Paragraph 241.)

(75) The definite policy of agricultural improvements and famine protection followed in the Bijapur District in the Bombay Presidency is recommended for adoption elsewhere with suitable agencies for advice, guidance and supervision. (Paragraph 241.)

(76) The attention of provincial Governments is drawn to the recommendations of the Royal Commission on Agriculture and of the Provincial Banking Enquiry Committees for examining and suggesting to cultivators the possibilities of agricultural improvement. (Paragraph 241.)

(77) In backward tracts where the cultivators are not fitted to exercise the rights of transfer of land and where co-operative credit societies cannot be successful and also in areas which frequently suffer from defective distribution of rainfall and water supply the free availability of facilities under the Agriculturists Loans Act is strongly recommended. (Paragraph 241.)

(78) The operation of the Agriculturists Loans Act should be generally restricted to relief of distress. (Paragraph 242.)

(79) The attention of Govenment is drawn to the weighty observations made by the Indian Famine Commission, 1901, regarding the policy to be followed by Government in the matter of granting loans under the Agriculturists Loans Act and the Land Improvement Loans Act. (Paragraph 243.)

(80) The grant of advances under the two Acts should not replace the assistance for famine relief. (Paragraph 243.)

(81) It is inadvisable to use the co-operative agency to advance loans to non-members on the responsibility of the society for their recovery and their proper application. There is, however, no objection to Government using the co-operative societies as agents for distribution. (Paragraph 245.)

(82) An extension of the system of advances by joint-stock banks against precious metals including ornaments is supported. (Paragraph 252.)

(83) The recommendations of the Bengal Provincial Banking Enquiry Committee in regard to loan offices are generally approved with certain minor modifications. (Paragraph 257.)

(84) The appointment of a special officer by the Bengal Government for the first few years at least of the working of the proposed Loan Offices Act in order to supervise and give sympathetic guidance to the loan offices is recommended. (Paragraph 258.)

(85) The Government of Bengal and the provincial legislature should examine Mr. N. R. Sarker's note on the question of the position to be occupied by the loan offices hereafter in the Indian banking sphere. (Paragraph 260.)

(86) The enactment of a special provincial legislation to deal with *Nidhis* and Chit Funds in Madras with certain detailed provisions is recommended. (Paragraph 264.)

(87) The recommendations of the Royal Commission on Agriculture in India and the various Provincial Banking Enquiry Committees for improving and organizing agricultural marketing are supported. (Paragraph 272.)

(88) The establishment of co-operative sale societies wherever there are reasonable chances of their successful working is recommended. Such societies should not only purchase their members' produce outright, but should also continue the present practice of acting as agents to producers for the sale of their produce. They should deal only with the produce grown by the members except in any particular locality where the society is competent to deal with non-members' produce. (Paragraph 275.)

(89) In their own interest merchants and traders should take all steps that are possible to use liquid goods in their possession for getting cheaper accommodation from banks. (Paragraph 279.)

(90) Provincial Governments should consider the desirability of advancing long-term loans at concessional rates of interest to co-operative societies to build godowns in centres which provide good markets. (Paragraph 280.)

(91) The question of providing warehouses by private agencies and licensing them, and the provision of capital for their construction, should be taken up by Provincial Governments, the efforts of the Provincial Governments in this matter being co-ordinated by the Imperial Council of Agricultural Research. (Paragraph 281.)

(92) A detailed investigation of the problem of starting railway warehouses in the chief centres of trade should be undertaken by the Railway Board and the railways should be asked to start experiments at selected centres. (Paragraph 282.)

(93) With a view to encouraging private enterprise to provide and work warehouses in the vicinity of railway stations certain modifications in the terms of the lease suggested by the Railway Board are recommended. (Paragraph 282.)

(94) The placing of railway receipts by the legislature on the same footing as bills of lading is recommended. It is further recommended that railway receipts should be made negotiable and that the railway authorities should issue instructions that the receipt should give as full a description as possible of the goods covered by it. (Paragraph 283.)

(95) Proposals for the establishment of Provincial Marketing Boards should be examined by Provincial Governments in connection with the creation of regulated markets by provincial legislation as recommended by the Royal Commission on Agriculture. (Paragraph 284.)

(96) The activities of the Provincial Marketing Boards may be usefully co-ordinated by the Imperial Council of Agricultural Research. (Paragraph 285.)

(97) Certain points are mentioned for consideration in connection with a proposed scheme for the establishment of a corporation for stabilizing jute prices. It is recommended that the Governments concerned should examine the matter and introduce an arrangement which may be suitable for all interests affected. (Paragraph 286.)

(98) It is recommended that the local Governments concerned should take prompt steps for the fixation of proper standards of jute. (Paragraph 287.)

(99) The establishment of Chambers of Agriculture on a provincial or regional basis is recommended. (Paragraph 289.)

(100) Provincial Governments should not hesitate to make advances to co-operative banks at concessional rates of interest for the development of co-operative sale societies. (Paragraph 293.)

(101) Provincial Governments should devote their earnest attention to the development of cottage industries. (Paragraph 301.)

(102) The establishment of co-operative institutions to finance rural industries on a larger scale than at present and the study of German experience in the field of co-operative organization for small industries and small traders and retailers are recommended. (Paragraph 307.)

(103) State assistance in connection with propaganda and education and provision of funds for the movement, if required, are also recommended. (Paragraph 307.)

(104) The recommendation of the Provincial Banking Enquiry Committees to establish licensed warehouses and co-operative wholesale depots for storing and sale of products of cottage industries is supported. (Paragraph 309.)

(105) The extension of the activities of the Arts and Crafts Emporium at Lucknow is supported. (Paragraph 310.)

(106) Proposals for the enactment of State Aid to Industries Acts in the Provinces other than Madras and Bihar and Orissa on lines similar to the Acts in those two Provinces are recommended to the Provincial Governments for their consideration. (Paragraph 311.)

(107) The establishment of limited liability co-operative societies generally known as urban banks, wherever necessary facilities and conditions exist, for the benefit of the middle-class people, small traders and shopkeepers and salaried classes is recommended. (Paragraph 317.)

(108) Certain detailed recommendations regarding area of operation, share capital, management, business, advances, etc., of the co-operative urban banks are made. (Paragraph 319.)

(109) The employers should in their own interest give greater attention to the provision of credit facilities for their employees and should also take more part in the supervision of co-operative societies started for their benefit. They may assist the co-operative organizations by effecting recoveries of loans by deductions from wages. (Paragraph 320.)

(110) The establishment of mortgage institutions similar to the city mortgage institutions in Germany for extending to cities the principle of *Landschaften* in agricultural areas is recommended. (Paragraph 321.)

(111) Any technical difficulties in the way of Government communicating acceptances of tenders to contractors and to their financing banks or bankers and payment of all monies due to the contractors through these banks and bankers should be removed. (Paragraph 322.)

(112) An attempt should be made to make industrial enterprise in India less dependent on the managing agency system for future development and to establish direct friendly relations between industrial companies and commercial banks. (Paragraph 353.)

(113) In connection with the issue of shares and debentures of industrial companies such of the existing commercial banks as are well established and carry on their ordinary banking business on the safest and soundest lines might with advantage to the industries follow, as far as possible, the German system, the Imperial Bank of India making a start in this direction and giving a lead as soon as the Reserve Bank comes into being. (Paragraph 391.)

(114) With the co-operation of banks, the deposits now taken from the public by the cotton mill industry should be replaced by share or debenture capital as soon as possible. (Paragraph 393.)

(115) Banks in India may establish useful liaison between themselves and industries by appointing one of their Managing Directors or Managers as one of the Directors of the industrial concerns financed by them. (Paragraph 395.)

(116) The appointment of Local Advisory Committees in banks by the Board of Directors with functions of a purely advisory character is recommended. (Paragraph 396.)

(117) If a provincial Government in the discharge of its responsibility for the development of industries within its territories finds it necessary to ensure the supply of financial facilities to industrial concerns a Provincial Industrial Corporation with branches, if necessary, should be established. (Paragraph 401.)

(118) The advisability of giving assistance to any particular industrial concern should depend on the extent to which the

enterprise will be of benefit to the public and will add to the productive power of the province and provide employment for its people. (Paragraph 401.)

(119) The Provincial Industrial Corporation should obtain its share capital as far as possible from the public, Government taking such portion as cannot be raised by public subscription. (Paragraph 402.)

(120) The share capital of the Corporation should be supplemented by debenture capital not exceeding at the outset twice the amount of the share capital. (Paragraph 403.)

(121) Government might, if necessary, purchase a portion of the debenture issue of the Provincial Corporation until a regular market has been created for them and also offer a limited guarantee of interest on debentures. (Paragraph 404.)

(122) The question of classing debentures of the Industrial Corporation among trustee securities should be examined by Government in due course. (Paragraph 405.)

(123) The Industrial Corporation should specialize in the provision of long-term capital to industries which should continue to obtain their working capital from existing institutions. (Paragraph 406.)

(124) The Corporation may take long-term deposits for not less than 2 years. The period of loans issued from such deposits should be based upon the period of currency of the deposits. (Paragraph 406.)

(125) Government should be entitled to be represented on the Board of Directors of the Industrial Corporation during the continuance of Government interest in and liability for the concern. (Paragraph 407.)

(126) Should a Provincial Government desire, the Government Director may be entitled to ask for a reference to the Government if he does not agree with the views of the Board in regard to important matters such as increase or reduction of capital, granting of loans in any particular cases and appointment of chief officials of the Corporation. (Paragraph 407.)

(127) By-laws should be framed by the Corporation defining the conditions under which financial facilities may be granted by it to industrial concerns. These by-laws should require the sanction of Government so long as Government have interest in the Corporation. (Paragraph 408.)

(128) The enactment of provincial legislation on the lines of the Madras State Aid to Industries Act to provide credit facilities to new and nascent industries or industries newly introduced into an area or cottage industries is recommended. (Paragraph 418.)

(129) Any Government assistance in regard to provision of capital under such legislation should be given through the Industrial Corporation if and when one is established in any province on the lines suggested. (Paragraph 408.)

(130) The suggestion that exchange banks should consider the possibility of changing their present custom to the extent that they should be prepared to accept the import bills instead of purchasing them in the same way as house paper of a London export house is now accepted by them is commended for the careful consideration of the exchange banks. (Paragraph 430.)

(131) If Indian importers find it convenient to have the exporters draw on them in rupee bills, the exchange banks should co-operate and encourage their efforts in this direction. (Paragraph 430.)

(132) The Exchange Banks' Association should consider the advisability of consulting commercial bodies in all cases of changes in the rules of the Association. (Paragraph 442.)

(133) Exchange banks should take steps to remove the existing grievances regarding payment of drafts held by the banks for collection. (Paragraph 444.)

(134) It is suggested that exchange banks, in consultation with representatives of the Indian Insurance Companies, should arrive at some understanding similar to that between the Imperial Bank of India and the insurance companies. (Paragraph 445.)

(135) All non-Indian banks wishing to do banking business in India should be required to take out a licence from the Reserve Bank. Licences should be freely granted to banks already established. Every licence should be in force for a stated period and should be automatically renewed if the licensing authority is satisfied that the provisions of Indian law applicable to the banks and other conditions specified in the licence are complied with. (Paragraph 451.)

(136) The conditions of the licence should be the following :—

(1) Furnishing to the Reserve Bank annual statements showing their assets and liabilities relating to the Indian business as prescribed by the Reserve Bank from time to time.

(2) Submission for a few years to come, at any rate, to some prescribed authority in India, preferably the Reserve Bank, periodical reports of Indian and non-Indian business handled by them.

(3) Other conditions imposed on basis of reciprocity. (Paragraph 451.)

(137) The appointment of Local Advisory Boards at each branch of the exchange banks is supported. (Paragraph 471.)

(138) The exchange banks should consider the introduction of a scheme of probationary assistants in their banks on the model of the Imperial Bank of India scheme. (Paragraph 474.)

(139) Such of the Indian joint-stock banks as are well established should open foreign connections useful to their clients. (Paragraph 482.)

(140) On the establishment of the Reserve Bank and the simultaneous withdrawal of the restrictions now imposed on the transactions of foreign exchange business of the Imperial Bank of India, the latter should be induced to take an active share in the financing of India's foreign trade. For this purpose a definite arrangement between the Reserve Bank and the Imperial Bank for a period of five years or such other period as the Reserve Bank may consider desirable for utilizing the Imperial Bank as agents of the Reserve Bank on terms to be settled between the two banks is recommended. (Paragraph 483.)

(141) If the Reserve Bank finds it impossible to arrive at a satisfactory settlement with the Imperial Bank of India or finds that within the stipulated period the Imperial Bank is unable to participate actively in the financing of India's foreign trade the establishment of an Indian Exchange Bank is recommended. (Paragraph 485.)

(142) The lines on which the new Indian Exchange Bank should be established are also suggested. (Paragraph 486.)

(143) The suggestion for the establishment of joint banks is supported and may be usefully explored by the Indian joint-stock banks and foreign banks. (Paragraph 492.)

(144) It is on the whole desirable that the Imperial Bank of India should continue to be governed by a special charter with suitable amendments. (Paragraph 529.)

(145) We recommend that the Reserve Bank may place, for the first five years, with every new branch opened by an approved joint-stock bank at a centre where there is no joint-stock bank, a deposit of such sum on such terms and conditions as it may consider necessary. (Paragraph 530.)

(146) Any bank desiring to open a new branch in India should obtain the approval of the Reserve Bank before doing so. Licences should be freely granted to the already established branches and the licensing authority should see that the provisions of the law and any conditions specified in the licence are complied with. (Paragraph 545.)

(147) The opening of sub-offices or part-time branches in small centres contiguous to places where there are regular branches of banks, is recommended for the consideration of banks. (Paragraph 546.)

(148) The suggestion that banks in India should aim at combining the efficiency of the European system of banking with the economy of indigenous bankers is commended for the consideration of the management of banks. (Paragraph 547.)

(149) The development of any banking business by Postal Savings Banks other than that supported in chapter XXIV is not recommended at this stage. (Paragraph 548.)

(150) No obstacles should be put in the way of mergers among smaller joint-stock banks by stamp duties or taxation, and any existing obstacles in this direction should be removed. (Paragraph 549.)

(151) Banks in India generally should adopt, as far as possible, and consistently with safety, a more progressive policy in the matter of granting clean advances on the personal credit of borrowers. (Paragraph 555.)

(152) The problem of pooling information in regard to customers and organizing a suitable system of collecting reliable information should be studied by the banks and the Bankers' Association proposed by us. (Paragraph 555.)

(153) Steps should be taken, as early as possible, to remove the impediments which now stand in the way of immovable property belonging to a Hindu or Muhammedan family being accepted by banks as a normal security. It is left to the Governments concerned and the legislatures to weigh the various considerations involved and determine what action should be taken in the matter. (Paragraph 562.)

(154) The provisions of Section 58(*f*) of the Transfer of Property Act should be extended to other important centres of trade and commerce (both internal and port towns) throughout India. (Paragraph 563.)

(155) The Negotiable Instruments Act should be amended so as to provide that cheques originally drawn to bearer would, despite any endorsement, retain their character as bearer instruments. The recommendation that any holder of a cheque should have the right to alter the character of the cheque from "bearer" to "order" on the face of it and that the alteration should be supported by the name of the drawer or holding endorser who makes the alteration is approved. *Hundis* which are drawn in the form of cheques should be treated similarly. (Paragraph 564.)

(156) The legal position as regards trust receipts should be investigated by the legal advisers of Government and such action taken as may be considered necessary. (Paragraph 565.)

(157) The cost of internal remittance in India should be reduced as far as possible. (Paragraph 566.)

(158) When the Reserve Bank is established, its published rate should be the minimum rate at which it is prepared to buy or rediscount first class trade bills and promissory notes arising out of *bona fide* commercial or trade transactions of member banks and bankers. The Reserve Bank may, at its discretion, charge a higher rate for demand loans against authorized securities. Should the Reserve Bank find it necessary to discount the paper of the public without bank endorsement, it should consider whether it should not in the first few years at any rate charge a higher rate of discount to the public than that charged to member banks and bankers. (Paragraph 593.)

(159) A suggestion for reducing charges for discounting bills in certain cases is commended for acceptance by banks. (Paragraph 593.)

(160) The abolition of the stamp duty on bills of exchange is recommended. The recommendation should be given effect to within a period of five years and as an initial step the stamp duty on all bills of less than one year's usance should be reduced to a uniform rate of two annas per one thousand rupees. (Paragraph 593.)

(161) We commend for the consideration of the Federation of Indian Chambers of Commerce and Industry certain suggestions made for developing the bill market in India. (Paragraph 593.)

(162) The suggestion that in places where *hundi* business is important an expeditious procedure for disposing of suits based on negotiable instruments should be introduced, on the lines of Order XXXVII of the Civil Procedure Code, is endorsed. (Paragraph 593.)

(163) It is recommended that banks should take the initiative in the matter of encouraging usance bills for the finance of village bankers by *shroffs* by suggesting this method to *shroffs* seeking accommodation from them. (Paragraph 597.)

(164) The suggestion that further experiments may be made in the establishment of licensed warehouses in select localities is supported. (Paragraph 599.)

(165) The introduction of bills in place of open account credits is recommended for the consideration of all parties concerned. (Paragraph 600.)

(166) A Central or Reserve Bank should be created at the earliest possible date. (Paragraph 605.)

(167) Additional provision should be made in the Reserve Bank Bill enabling the bank to make loans and advances on the security of movable goods, wares and merchandise as well as against the warehouse warrants or warehouse receipts representing such goods. (Paragraph 607.)

(168) The Reserve Bank may be permitted to purchase, sell and rediscount rupee import bills. (Paragraph 608.)

(169) If the limit prescribed in the Reserve Bank Bill for the holding of agricultural bills of maturity longer than 3 months is at any time less than the share capital of the Bank, the total face value of such bills may, at the discretion of the Bank, go up to the amount of the share capital. (Paragraph 609.)

(170) The period of six months for agricultural bills in the Reserve Bank Bill may be extended to 9 months. (Paragraph 610.)

(171) The Reserve Bank should be permitted to act as agents for any Indian States that may desire to utilize its services. (Paragraph 611.)

(172) If any securities were issued with the guarantee of Government both for capital and interest, the question of including them in the list of securities eligible for purchase and sale by the Reserve Bank should be considered. (Paragraph 611.)

(173) The limit of the powers of the Reserve Bank to borrow money should be extended to the amount of the share capital and the Reserve Fund of the Bank. (Paragraph 611.)

(174) The Reserve Bank bill should provide for the concessions recommended in paragraph 140 to indigenous bankers. (Paragraph 613.)

(175) An all-India Bankers' Association should be inaugurated as early as possible and should include as members the joint-stock banks, the exchange banks, the Imperial Bank of India and the indigenous bankers. There should be two kinds of membership, full membership open to banks and bankers enjoying rediscount facilities from the Reserve Bank, and associate membership open to the rest of the banks and bankers. (Paragraph 620.)

(176) The existing arrangements under which there are more Exchange Brokers' Associations than one at the same centre are undesirable and all engaged in exchange broking should have an association at each centre. (Paragraph 623.)

(177) Pending the establishment of the Reserve Bank, it is suggested for the consideration of Government that efforts should be made to obtain more complete statistics for the various classes of banking institutions and to publish them as early as possible. (Paragraph 627.)

(178) The limit for savings bank deposits in the accounts of minors may be raised. (Paragraph 645.)

(179) (*a*) Persons having post office savings accounts should be allowed to operate on these accounts, and to make deposits by means of cheques. (Paragraph 646.)

(*b*) Accounts may be opened jointly in the name of two persons payable to either or survivor. (Paragraph 646.)

(*c*) Depositors may be allowed to name nominees to whom the payment of deposits should be made in the event of death. (Paragraph 646.)

(180) The holder of a postal cash certificate should be allowed to nominate a person to whom the amount may be transferred in the event of death. (Paragraph 647.)

(181) The issue of savings certificates payable in gold, as recommended by the Royal Commission on Indian Currency and Finance, 1926, is supported in principle. (Paragraph 649.)

(182) The issue of a new type of gold certificate, called '*stridhan* certificate', is supported in principle. (Paragraph 650.)

(183) Facilities afforded by the post office to investors for the purchase and sale of Government securities and for their safe custody may be extended to small investors generally and not confined to those who are savings bank depositors. (Paragraph 652.)

(184) The reduction of charges for the purchase and sale of securities, collection of interest, safe custody and other services incidental thereto, is supported in principle and commended for the consideration of banks. (Paragraph 653.)

(185) Existing banks and their branches, including co-operative banks and other financial organizations, may render useful service by undertaking the work of buying and selling stocks and securities for their customers on a commission basis. (Paragraph 655.)

(186) Transfer duty on debentures may be reduced to a uniform duty of 4 annas per cent. (Paragraph 657.)

(187) Insurance companies, Indian as well as non-Indian, should be required by law to lodge an initial deposit with Government and to invest, and keep invested, a fixed proportion of their premia funds in approved Indian securities. (Paragraph 660.)

(188) (*a*) Facilities for payment of land revenue by cheque may be extended to taluka sub-treasuries and district treasuries.

(*b*) All material payments by Government should be made by cheques. The proposals made by the Bengal Committee on the subject are commended for the consideration of Government.

(c) All municipalities and other local bodies should be asked to consider the feasibility of making and accepting payment by cheque on account of salaries to some of their employees, and other items of receipts and disbursements. (Paragraph 665.)

(189) The formation of National Savings Associations in all provinces is supported in principle. (Paragraph 667.)

(190) The passing of a special Bank Act is recommended. (Paragraph 673.)

(191) Foreign banks should be brought within the purview of the Act to the extent indicated in the report and provided for in the Act. (Paragraph 673.)

(192) Members of the all-India Bankers' Association should be allowed to affix to their names the appellation, 'Member of the Bankers' Association'. (Paragraph 682.)

(193) Firms and companies using the term 'bank' or its equivalent and desiring to be incorporated under the Act should make adequate provisions in the Memorandum and Articles of Association regarding the following matters :

(i) Prohibition of activities other than banking. (Paragraph 692.)

(ii) Powers of directors regarding registration of transfers of shares. (Paragraph 699.)

(iii) The period during which a member should have held shares of a banking company before being entitled to take part in its proceedings at a meeting. (Paragraph 700.)

(iv) Prohibition of loans on the security of a banks' own stock. (Paragraph 709.)

(v) Limitation of loans to directors, managers and members of the staff of the bank. (Paragraph 710.)

(vi) Borrowing powers of Directors of a bank. (Paragraph 712.)

(vii) Qualifications, appointment, retirement, and voting powers of Directors and Officers of banks. (Paragraph 713.)

(viii) Holding of proxies by officers and employees of a bank, the admissibility of a general form of proxy and the maximum period of its duration and validity. (Paragraphs 714 and 715.)

(ix) Voting power of individual shareholders. (Paragraph 716.)

(x) Validity of votes tendered at the poll. (Paragraph 717.)

(xi) The period within which the Director's report and the balance sheet should be posted to the shareholders. (Paragraph 731.)

(194) An existing company using the title 'bank' or its equivalent, other than banks registered under the Indian Co-operative Societies Act or under any special charter or enactment and banks registered under laws of other countries, should arrange to conform to the provisions of the Act within five years of the passing of the Act. (Paragraph 682.)

(195) Any bank, Indian or non-Indian, wishing to do banking business in India should be required to take out a licence from the Reserve Bank. Licences should be freely granted to the already established banks. The licensing authority should see that the provisions of the law and any other conditions specified in the licences are complied with. (Paragraph 684.)

(196) The following provisions should be made in the Act :—

(i) Every institution doing banking business in British India other than a foreign bank should have a majority of natural born or domiciled Indian directors. (Paragraph 689.)

(ii) No new bank, other than a foreign bank, should be allowed to operate in British India unless it has a majority of Indian shareholders and is incorporated under the Indian law. (Paragraph 690.)

(iii) Organization of a bank on the Managing Agency system should be prohibited. (Paragraph 693.)

(iv) A joint-stock bank with limited liability registered under the Act should not commence business until its paid-up capital is at least Rs. 50,000. Its authorized capital should not be more than double the subscribed capital and the paid-up capital should not be less than 50 per cent of the subscribed capital before commencement of business. (Paragraph 695.)

(v) There should be a separate index of the names of members of a banking company for ready reference and inspection by shareholders. (Paragraph 697.)

(vi) Institutions doing banking business in India should be required to keep a separate register of shares owned by non-nationals. (Paragraph 698.)

(vii) There should be a provision in the Bank Act requiring the directors to decide within two months of the date of presentation of transfer deeds to the bank whether the transfers shall be registered or not. (Paragraph 700.)

(viii) Particulars of certain mortgages and charges should be filed with the Registrar of Joint-Stock Companies of the province where the bank has branches. (Paragraph 701.)

(ix) Certain prior charges on immovable property acquired by a bank should be registered. (Paragraph 702.)

(x) Satisfaction of a mortgage should be recorded before the Registrar. (Paragraph 703.)

(xi) Until the reserve fund equals the paid-up capital, an amount equal to at least 2½ per cent of a bank's paid-up capital should be taken before distribution of dividend to a reserve fund. (Paragraph 704.)

(xii) Advances to an auditor or a member of a firm of auditors of a bank should be prohibited. (Paragraph 711.)

(xiii) The creation at any time of a mortgage or charge on a bank's uncalled capital or any part thereof should be prohibited. (Paragraph 712.)

(xiv) Officers and directors of a bank should be rendered liable for omission to state material facts in their reports or in the presentation of the accounts of the bank. (Paragraph 720.)

(xv) Any payment to an auditor of a bank in addition to the amount of remuneration fixed at a general meeting of shareholders should be invalid unless fixed or confirmed by the shareholders. (Paragraph 721.)

(xvi) The existing form of the balance-sheet of a bank should be revised as indicated. (Paragraph 730.)

(xvii) Bad debts must be written off and if full provision is made for doubtful debts, the figure of loans and advances in the balance-sheet should be given after deducting the amount of such provision. If provision has not been made, any balance of doubtful debts not fully provided for should be shown as indicated in the revised form of the balance-sheet. (Paragraph 727.)

(xviii) The prescribed basis of valuation of securities should be that the valuation should not be in excess of cost

or market price, whichever is the lower. (Paragraph 729.)

(xix) Banks should display a copy of their entire balance-sheet in lieu of the statement in Form G and should continue to display it until the next following statement is published. (Paragraph 732.)

(xx) The annual general meeting of a bank should be held not later than three months after the close of the year. (Paragraph 734.)

(xxi) A temporary moratorium on the recommendation of the Reserve Bank to prevent untimely and compulsory liquidation of a bank which is in difficulties should be permitted. (Paragraph 735.)

(xxii) In the case of voluntary liquidation of a bank, the appointment of a liquidator should be made by or with the approval of the Board of Directors of the Reserve Bank. (Paragraph 739.)

(xxiii) Provision for safeguarding the interests of creditors in the case of compulsory liquidation on the lines of the (English) Companies Act, 1929, is suggested. (Paragraph 740.)

(xxiv) The Act should provide for the appointment of committees of inspection in the case of compulsory as well as voluntary liquidation of a bank. (Paragraph 741.)

(xxv) It should be incumbent on every seller of banks' shares to give the actual numbers of the shares at the time he sells them. (Paragraph 748.)

(197) Regulations of loans by banks should be left to the discretion of the management and the control of the board of directors. (Paragraph 708.)

(198) It should be one of the functions of the Reserve Bank to lend its advice and co-operation in cases of amalgamation or reconstruction of banks which are in difficulties. (Paragraph 736.)

(199) There should be some arrangement under which the Indian creditors of a non-Indian bank taken into liquidation should have a prior claim on its assets in India and should also share in the general distribution of its assets outside India should there be a shortage in the assets held in India. (Paragraph 743.)

(200) In every University there should be some arrangements for the training of students at recognized institutions for the

courses of degrees in commerce instituted by them. (Paragraph 755.)

(201) The suggestion that arrangements should be made by the Indian Institute of Bankers for University lectures and courses of instruction at different centres in the subjects included in the curriculum of the Institute is commended for the consideration of the Institute. (Paragraph 761.)

(202) If it could be arranged, young Indians possessing high qualifications should after they have had a good preliminary training in banks in India, be sent abroad to study advanced banking, especially international exchange and other subjects connected with currency and exchange. (Paragraph 766.)

(203) Wherever possible, instruction should be given in secondary schools in elementary accounting, discount, co-operative principles and elements of banking and the subjects should be taught systematically wherever introduced. (Paragraph 768.)

(204) The suggestion that the Indian Institute of Bankers should arrange, in different important centres, for courses of lectures in the vernacular of the community to which the local indigenous banker belongs and to hold special examinations, on the result of which certificates could be awarded may be considered by the Institute. (Paragraph 769.)

(205) Sons of the indigenous banking families should be encouraged to join joint-stock banks. (Paragraph 771.)

(206) The question of inclusion of co-operation in the curriculum of studies for the examination of the Institute of Bankers, at least as an optional subject, is commended for the consideration of the Institute. (Paragraph 773.)

(207) Closer study of marketing of agricultural produce should be introduced in the co-operative training institutes. (Paragraph 776.)

(208) (*a*) Co-operative educational institutions should be established in each province. The subjects to be studied should include co-operative education, propaganda, progressive farming methods, banking, accountancy, rural economy, marketing methods and rural industry.

(*b*) There should be an All-India Co-operative College for the higher study of co-operation and allied subjects and research work.

(*c*) The Provincial and the Central Co-operative Colleges should not be Government institutions, but should be left to organizations conducted by co-operators themselves, though Government may assist by means of grants. (Paragraph 779.)

(209) Officers of co-operative, central and provincial banks should have received full training at, and passed the examination of, the co-operative educational institutions mentioned above and this should be an essential condition governing the recruitment of the staff of officers. (Paragraph 781.)

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M. JAMAL MAHOMED.
ABDUL QAIYUM.

V. K. ARAVAMUDHA AYANGAR—*Secretary.*
R. P. MASANI—*Joint Secretary.*

2nd June 1931.

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* Subject to a minute of dissent.
** Subject to two minutes of dissent.
*** Subject to observations printed below.

Minute of Dissent by Mr. V. Ramadas Pantulu.

THE INDIGENOUS BANKING SYSTEM.

1. It is with the utmost diffidence that I venture to give expression in this minute to my views on the future development of indigenous banking. I fully realise that my colleagues have bestowed much thought to the problem, evinced considerable desire to develop indigenous banking and made very helpful recommendations in that behalf. The representatives of the Indigenous bankers themselves do not seem to have asked for much more. My task therefore becomes all the more difficult to justify the necessity for this minute. But I felt that I would be failing in my duty if I did not give expression to my strong conviction that the question of placing the indigenous banking system as a whole on sound, stable and solid modern foundations cannot be satisfactorily solved by the mere provision of facilities, however valuable they may be to individual private bankers, selected for special treatment by the Reserve Bank or the Imperial Bank. There is too much of personal element in it and too little of system. The success of the scheme must in the long run depend not upon the survival of a few individual bankers to take advantage of it but upon the reorganisation of the indigenous banking classes so as to bring them into the banking system of India.

2. I admit that the establishment of the Reserve Bank and the provision for the indigenous bankers (who satisfy certain prescribed standards) being put on the Reserve Bank's list of banks eligible for discounting and rediscounting facilities and the Imperial Bank giving certain facilities such as using them as agents for collection of bills and cheques and discounting their bills more freely, will to a certain extent improve the position of some of the indigenous bankers and increase their contact with the joint stock banks and the money markets. But I feel that these arrangements by themselves will not help to develop indigenous banking system as a whole and arrest the decay that has already set in into the working of that system. I am of opinion that there is need, as well as scope, for reform of a larger magnitude and more far reaching character. I have from the outset of the enquiry felt that something could be done to confer on the indigenous banker, who carries on pure banking, the legal status of a banker *qua* banker with the privileges and responsibilities attaching to such status. I can see no difficulty from a banking or legal stand-point to bring family partnerships of indigenous bankers, as well as individual bankers, with requisite resources, within the scope of the Bank Act recommended by the committee. It should surely not be difficult to fix standards of eligibility for registration as bankers and to frame a set of banking regulations which are suitable to the peculiar conditions of such partnerships and bankers. I do not see why a bank should always be associated with the joint stock and the dividend. Transform the private banker into an " indigenous banker " func-

tioning under the law governing banks and bankers in this land, create a recognised field for indigenous banking as an honourable profession and make it an integral part of the country's banking system. That should be part of our plan to build up our modern banking structure on indigenous foundations and to supplement the joint stock and co-operative effort in the banking sphere.

3. " The adaptation of indigenous banking system to modern requirements " is a phrase of which one hears a great deal; but what its precise implications are and what the means whereby it can be accomplished are matters on which very little light has hitherto been forthcoming. The present enquiries both by the Provincial Committees and the Central Committee, have however thrown a certain amount of light on the activities of indigenous bankers and the role which they may play in Indian Banking Organisation in the future. These bankers present a bewildering variety. According to the census of 1921 the number of " bankers " was about 1,461,000 and included " Bank managers, moneylenders, exchange and insurance agents and money changers ". Perhaps for the first time in the history of Indian banking, the attempt is made to give a more restricted and technical meaning to the words " indigenous banker ", obviously with a view to separate those whose main, if not sole, business is banking from these who are primarily moneylenders or traders or land owners doing some banking and to bring the bankers proper, to the extent possible, into the banking organisation of the country. In the Committee's scheme, those who shed trade and other business which they at present combine with banking and confine themselves to banking, that is to say, receive deposits, make advances and discount hundies and bills, are marked out for special treatment. Eligibility for such treatment is however not restricted to recognised classes of private bankers such as Chetties, Multanies or Marwarees but is conferred on all classes of people, provided they elect to engage themselves in banking proper and conform to certain conditions and standards. This is perhaps as it should be having regard to modern tendencies in social evolution. Notwithstanding the fact that the designation " indigenous banker ", thus no longer carries with it implications of a hereditary or traditional occupation, it does carry with it a notion of historic continuity of the *system of banking*, which has long served the people of this country well and truly and which still serves them very largely, though not as efficiently as the altered conditions of our social economy require. The designation has acquired a new connotation in the report and will soon gain new currency. The joint stock banks owned and managed by Indians and the co-operative banks which were imported into India from the west and planted on Indian soil, which has fortunately proved congenial, are also indigenous in a sense. They are not foreign. So are the loan offices and Nidhis and chit funds for whose development on lines suited to the people served by them we have recommended special legislation. In any scheme of banking reform for India all these parts of Indian banking organisation should be brought together.

4. The question then is can indigenous banking be developed along side with the Indian commercial and co-operative banks? Is there room for it? Is there need for it? Before answering these questions it must be first ascertained whether there is any indigenous banking left in the country to be developed. This task has been admirably performed by the provincial banking committees who have collected and marshalled valuable material regarding the organisation, methods of business and capital of the indigenous bankers and the vast extent to which internal trade, commerce and agriculture are still financed by them. Our report summarises these details. On the materials on record I am unable to share the view that the extinction of the indigenous banker is a matter of time and will quickly follow in the wake of the expansion of commercial and co-operative banks. As regards the resources of the indigenous bankers which are made available to the economic development of the country, they still constitute the bulk of the capital of all the credit agencies put together. The External Capital Committee who enquired into the available capital resources of the country say that the indigenous banking system " fulfils valuable functions in affording credit facilities and it will be required to fulfil them for a long time to come. Every endeavour should therefore be made to utilise it and to fit it into the modern banking system which is being developed in rural areas ". If the borrowing policy of the Government specially short-term borrowing, undergoes a change the resources of the indigenous bankers which are dwindling will be greatly improved. It may be as that committee points out that the " indigenous system is in itself incapable of development to an extent that would satisfy the banking requirements of the country ". That is why we are developing commercial and co-operative banking also. So much for resources.

5. As for human material the findings of the Provincial Committees generally speaking are that there is still plenty of traditional knowledge and skill available and that the members of these banking classes are known for their honesty, business habits, resourcefulness and aptitude to earn and save money. A certain number of them are said to work at present on largely modern lines and transact all kinds of business which the ordinary joint stock banks do, including the issue of pass books and cheque books. It is further stated that the system of banking pursued by the better class of thee bankers is suited to the commercial and financial genius of the people, their local requirements, habits, customs, and traditions. In any scheme to link up the private banker with the general banking organisation of the country we can of course accept only those who confine themselves to banking proper and do no trade. (Sinha's Early European Banking in India, page 236.) These facts are helpful to show that there is promising material in the country on the foundation of which one wing of the superstructure of the modern banking system of the country can be built. (See Early European Banking in India, page 236.)

6. There is thus room for indigenous banking system and for its development. I shall now set out my reasons for the view that

there is also a clear need to re-organise our indigenous system of banking on modern lines, in addition to developing commercial and co-operative banks. The following are my reasons:—

(*i*) I agree with my colleagues that both the multiplication of sound joint stock banks with branches penetrating into the interior and the spread of co-operative credit movement, so as to serve the bulk of the rural and urban population, will take a very long time. Indeed the laissez-faire policy of the Government under which the joint stock banks get no assistance or encouragement and the serious encroachment on the sphere of finance of internal trade by powerful foreign banks react adversely on the growth of joint stock bank. So the displacement of indigenous banking is not the right policy. Reconstructing it on modern lines is more helpful.

(*ii*) I consider that while the development of banking in India should undoubtedly be adapted to modern conditions it cannot be wholly achieved by a mere slavish imitation of the English Joint Stock Banks' model. I agree with the following observation of a recent writer on Banking in India. "Commercial banks alone will not create the needed credit for our agricultural and nascent manufacturing industries. That the Indian Joint Stock Banks have borrowed, copied and translated the chief features of the English banks is an undisputed fact. * * Like the English banks they wish to trade largely on credit. * * The superficial elements alone have been copied while the really vital and progressive features of English banking have not been engrafted on our system". (*Vide* Rau's Present Day Banking in India, page 379.) In this connection I also wish to draw attention to the view of Sinha regarding the unsuitability of the expensive standards of banking establishments set up by foreign bankers and copied by Indian commercial banks. He says "somehow or other people cannot think of a bank except as a lofty and spacious hall, with shining counters and a large army of clerks and peons. It is not realised that the security of a bank lies in none of these things, but in the rigorous cutting down of charges, in honesty, integrity and efficiency of management. In a vain attempt to win the confidence of the public, expenses for spectacular shows are undertaken which are not at all warranted by the volume of business". (*Vide* "Early European Banking in India", pages 222-23). Evidence to this effect was also tendered before the Committee as mentioned in paragraph 547 of the Report.

(*iii*) The savings of the people locally collected in the form of deposits by the Commercial Banks are transmitted to cities and large urban centres for more favourable investments than can be locally found. Collection of

small savings by the Government through postal savings banks and cash certificates, however beneficial the policy may be in other respects similarly starves local needs by intercepting the resources of local banking agencies. More than one Provincial Banking Enquiry Committee adverted to the fact that mofussil centres specially rural areas, suffer for want of funds, as capital raised in those areas by the banks is not made available for local requirements. Perhaps it may not be feasible to remedy this evil by imposing conditions on the Banks as to where they should invest their capital. (*Vide* para. 542 of the Report.) That is precisely the reason for developing local banking agencies which will be more truly serviceable to the people whose savings they can mobilise to satisfy local needs. This is the fundamental claim of co-operative banks for further development and indigenous bankers can largely supplement the activities of co-operative banks in this direction. This aspect of the matter is also recognised by my colleagues in paras. 144 and 145 of the report.

(*iv*) The real banking agency of the people still lies outside the modern banking organisation of the country. Agriculture, rural trade and rural industry derive their finance almost exclusively from the indigenous agency. So do small traders and handicraft industrialists in urban areas. The finance thus derived is considerable and enters very largely into the economic life of the vast rural and urban population who depend solely on it. Nevertheless the terms on which the indigenous banking agency finances the movement and purchase of produce or of imported goods and the rates of interest charged to trade and industry for accommodation are onerous and not conducive to the development of our internal trade, commerce and industry.

(*v*) The evils of uncontrolled moneylending are increasing with the deteriorative indigenous banking agency of the proper kind. Moreover indigenous bankers are transferring themselves into usurious moneylenders. Unlike a banker he does not weigh each debt by itself, but balances good against bad debts and in order to earn an average return on his capital, distributes his risks on the transactions with his various clients. This operates to the prejudice of good borrowers.

(*vi*) The operations of the indigenous bankers lie outside the influence of organised joint-stock banking system of the country, very little affected by the credit policy of those bankers.

(*vii*) Only a small portion of the demands which indigenous bankers supply is derived from the banks and that only at times of monetary stringency or pressure. Nor do

indigenous bankers place their idle funds with the banks either as demand or time deposits. So the banks are not in a position to adequately interfere to moderate or govern the operations of private bankers dealing in credit.

(*viii*) Conditions for the extension of the bill market cannot be adequately created without organizing the indigenous bankers whose knowledge of local trade conditions will form a valuable basis for good trade bills.

(*ix*) There are thus no means available to secure for the Central Banking authority, which is expected to be set up very soon, an effective control over the credit operations of the indigenous bankers, although they admittedly form an important limb of the banking agency of the country.

7. It is my firm conviction that if the indigenous banker is put on a statutory basis by registering all those who wish to avail themselves of the provisions of the Bank Act it will impart vigour and tone to the whole system of indigenous banking and result in the better equipment of the existing indigenous banking agency to finance internal trade, commerce, industry and agriculture on terms which modern conditions demand and which ensure the economic development of the country. I agree with my colleagues that if indigenous bankers are brought within the sphere of operation of the Reserve Bank a much greater proportion of agriculturists will be benefited than if the Reserve Bank dealt with joint stock banks and the provincial co-operative banks only. These proposals will further result in bringing about a closer contact between the indigenous banking system, the commercial banks and the Central Banking authority and secure to the latter a large measure of control over the operations of the indigenous bankers who are still the largest credit agency of the country from the point of view of the funds handled. Conditions necessary for the extension of the bill market will be also forthcoming. As an enthusiast in Indian banking reform puts it, we shall have then helped to "broaden the channel between the bazar and the banks, enlarge and quicken the contact between these two elements in the Indian banking system and secure that credit operations throughout the whole system will respond to the policy of the Central Banking authority".

8. I am, however, told that indigenous bankers do not like the idea of registering themselves as bankers under the Bank Act. I do not see why they should dislike the idea. Now, lawyers, auditors, doctors, engineers and men of other professions consider it an honour and a privilege to be registered. They have acquired a status and dignity by the very act of registration under the several statutes pertaining to their professions. The registration I contemplate is not a writ of restraints but a charter of rights. If the leaders of the indigenous banking communities take up this question and popularise the idea, I have no doubt it will be enthusiastically received. It must be impressed on them that "if at this time when the general banking machinery of the country is being re-

organised, they refuse to become serviceable in the direction of establishing a real money market in the country, an attempt would be made to exclude them from the national credit economy of this country ".

9. It is then asked why should they register themselves under the Act? What will they get as *quid pro quo*? I scarcely think that the question arises. According to all accounts this class is steadily losing ground. Except from limited circles of their friends and acquaintances many of them are not able to get deposits or loans for their business. The Indian Chamber of Commerce, Calcutta, have described the position very clearly. In their expressive language " The position to-day is that the indigenous bankers in India are like Lilliputians who in spite of their numbers are helpless in tackling financial problems of the country ". I do not wish to dwell on the causes of this deterioration in their position or as to why they failed to develop into modern bankers as the merchant-bankers of Japan did in the wake of the economic reorganization of their country. The very fact that they carry on banking as recognised bankers and submit themselves to regulations which are framed to protect the interests of depositors and to ensure the adoption of efficient business methods will inspire confidence in the public and will enlarge their resources, and expand their business. There is a great future before them if they move with the times and adjust themselves to modern conditions and do not by their adherence to out-of-date methods court their own extinction. In this I fully share the optimism of my colleagues (para. 146 of the Report).

10. If considerations of *quid pro quo* do enter into the question of this reorganization of indigenous bankers there is much to be had in that way too. Their position as bankers under the law of the land will surely entitle them to be placed on the same level as joint-stock banks in many matters like receiving money into their counters without stamping their receipts and having remittance and collection facilities on terms open not to the general public but to banks. The more prominent of them who have their offices at the provincial capitals where there are clearing house arrangements may claim membership of the clearing houses. I see no reason why bankers' lien may not be extended to them. The provisions of the Bankers Books Evidence Act will be attracted to them. If and when the joint-stock banks get any facilities for speedy determination of their claims or reduction in costs of litigation, the registered indigenous bankers will have them too. The Reserve Bank will necessarily have to make its choice, for enlistment on its roll of banks and bankers entitled to discount and rediscount facilities, from the ranks of the registered indigenous bankers. The Imperial Bank will similarly have to choose for its agency work for collection only registered bankers and so too it must offer discounting facilities only to members of that class. The associations of the registered indigenous bankers will then have a wider influence and higher prestige than those of a nebulous class. The whole organization

will thus undergo a marvellous change and a new orientation will be given to the indigenous banking system.

I make these reservations in subscribing to the chapter on indigenous bankers in the hope that possibilities of banking reform on the lines indicated by me will be explored when the time comes to enact the Bank Act and the Reserve Bank Act.

V. RAMADAS PANTULU

Minute of Dissent by Nalini Ranjan Sarker.

I.—INTRODUCTORY.

I am constrained to write this minute of dissent as there is, in important respects, a fundamental difference of outlook between the majority and myself. The terms of reference imposed on us, according to my understanding of their significance, the duty of investigating the entire problem of Indian banking with special regard to our national requirements. The findings of the majority are, in my opinion, markedly in the nature of a compromise. I am not in every case averse to a compromise, but as I believe that in certain respects the compromise has " overshot the mark ", I feel I must state my views separately.

2. The subjects on which I found my views to be sharply at variance with those of majority, as also with those of the foreign experts, are those relating to industrial finance and the financing of foreign trade, with relevant reference to the future status and function of the Imperial Bank.

3. In regard to the problem of Industrial Finance it has been impossible for me, for reasons stated hereafter, to endorse the lukewarm attitude of the majority in support of a matter of such grave national importance. They have also omitted to refer to certain important details, which are necessary to give an indication of the line of action to those who will be responsible for the initiation of schemes of industrial banks. I have also thought it advisable to refer to the question of long term industrial credits particularly with regard to their working in other countries and in this behalf I have endeavoured to meet the objections of the foreign experts to our proposal for an industrial corporation. Again, I differ markedly both from the arguments and conclusions of the majority in regard to the financing of foreign trade. I consequently also differ from the majority in their endeavour to maintain the existing status of the Imperial Bank even if no special arrangement is made for the Banks undertaking foreign exchange business, and in this I was influenced by the fact that this bank cannot expect to have the privileges rightly belonging to a national institution so long as the majority of its shares are held by non-Indian interests.

4. Now, even assuming the full acceptance by Government of our recommendations in regard to the assistance and encouragement of Indian banking, and the imposition of the restrictions recommended by us upon foreign institutions the point should be clearly borne in mind that these alone will not be found adequate. There is yet another aspect of the problem that required to be presented. It is evident that ultimately it is left largely to the people themselves to develop their own institutions, without which no outside assistance can be completely effective. Accordingly, the initiative and support of the people should be regarded as factors of vital importance. With their confidence and co-operation,

there should be nothing to hamper the healthy development of Indian banking.

5. Among the many factors that are responsible for the present backwardness of Indian banking, the lack of faith of the Indian public in our banks is one, a manifestation of the general predilection, unfortunately rather too common, in favour of things Western and against things Indian. I can, of course, appreciate the timidity to the extent that it signifies the fear of one who has slender resources which he naturally hesitates to risk by placing them in banks. But what I cannot understand is why a bank is believed to be sound simply because it is managed by Europeans and to be unsound for the sole reason that it is Indian.

6. This timidity has been accentuated by the failure of some Indian banks, of which too much is made by interested foreign concerns. No one will seek to extenuate the crimes and follies of one or two Indian banks, such as the Bengal National Bank, in the past, but these require to be viewed in their proper perspective and proportion. Mismanagement and dishonesty in banking are by no means a monopoly of Indians. On the eve of her commercial expansion, Great Britain likewise had a number of failures, but banking was borne on the high tide of economic prosperity and the nation had little difficulty in consolidating her banking system. Much the same can be said of other countries and in fact some countries even now are suffering from what may be described as an epidemic of bank failures. During the nine years 1921-1929, the bank suspensions in America numbered 5,642 involving deposits of $1,722,486,000 while during the first eleven months of 1930 so many as 981 banks with a total deposits of $515 million suspended business. (National City Bank Bulletin—January 1931.) The phenomenon is, therefore, not peculiar to India and a few bank failures, negligible in comparison with those of other countries, should not lead to a blind preference for foreign banks. As pointed out by the Punjab Inquiry Committee, of 1913, the bank failures of that year were not due to any inherent inefficiency in Indian banking organisation nor to any incapacity on the part of Indians in managing banks, but to causes inevitable in the formative stages of banking in any country.

7. On the other hand, the facile confidence in foreign banks is often quite inexplicable. The Indian institutions issue balance sheets, which are comparatively much more informative and more calculated to give a true idea of their intrinsic position. Their head offices are situated in this country. Their meetings can be attended and any necessary information is easily obtainable. On the contrary in regard to foreign banks it is next to impossible to know their real position from their balance sheets. Their head offices are situated outside this country and most of us can have no access to them. Nor have we any means of knowing much about their directors, or what their vested interests may be. These considerations would lead one to expect an attitude of greater scepticism towards, and less confidence in, foreign banks, whereas

we find the reverse to be the case. This attitude is tantamount to placing a handicap on the national and offering a bounty to foreign banking enterprise in this country. I do not wish to withhold my tribute to the efficiency of some of the foreign banks, but it is necessary to point out that efficiency is not a prerogative of foreigners.

8. My remarks are largely prompted by the consideration that the psychology of the Indian public is bound to have a vital influence on the successful development of banking in this country. This psychology which has till now shown all the characteristics of an inferiority complex, is showing signs of change, and it is necessary that we should contribute our conscious efforts to make this healthy change permanent. Failures may shake our faith in our institutions for the time, but, if our faith be not utterly lacking and moreover be supported on reason, we should be able to support our banks through their period of struggle until they get firmly established. True it is in most cases that people get what they deserve. It is certainly true of banking in India. The remedy for the existing defects of Indian banks does not lie in turning away from them, but in demanding of them and assisting them to maintain a suitable standard. What is essential is an alert public opinion in regard to the methods and practices of Indian banks; not merely a critical but also an enlightened opinion. It is up to the leaders of Indian thought to rouse our people from their accustomed apathy in these matters to a better appreciation of the situation. With vigilance and sympathy on the part of the public, the possibility of failures will be greatly minimised and this in turn will serve to create greater confidence in their own countrymen to the mutual benefit of both the banks and the public. I hope, it will be agreed that I am right in thus calling attention to the need for developing a lively and enlightened public opinion in regard to Indian banking enterprise, for it is not by banking laws alone, but also by public support that Indian banking will be able to grow and thrive.

9. One of the aspects of Indian banking, on which I would like to make a few remarks in this connection is the problem of indigenous bankers the examination of which led to the recognition of the fact that they occupy an indispensable position in the financial system of the country. In the rural areas they render a valuable service to small industries and agriculture, although co-operative societies are steadily making a headway. In the urban areas too, they play an important role in financing some of the bigger industries and internal trade but there also the competition of established banks is adversely reacting on their position and importance. This was bound to happen owing to their following the old conservative methods of business. But as the United Provinces Committee have correctly observed, " they possess wide knowledge and varied experience and the world would be the poorer by their extinction ". It has therefore been proposed by us to improve the status of these bankers by conferring certain privileges on them from the Reserve Bank which in effect would place them

in a more advantageous a position than that of the joint stock banks. In my opinion it should further be clearly emphasised that the purpose of these privileges is to bring them within the folds of the modern banking organisation. So far as the bigger towns are concerned banking facilities are growing through the activities of the joint stock banks. In the smaller towns, into which the banks have not extended their operations, it is highly desirable that institutions like joint stock and co-operative banks, run on the principles of corporate finance, should gradually replace the indigenous banker, wherever possible, so that banking facilities may not be dependent on the chance of the successor possessing the liberal outlook, constructive genius and business integrity of the original proprietor. I beg leave to repeat the observation made by the External Capital Committee, that " the indigenous banking system is in itself incapable of development to an extent that would satisfy the banking requirements of the country " (Report of the External Capital Committee, para. 10).

II.—FINANCIAL REQUIREMENTS OF INDUSTRIES (CHAPTER XVI).

1. I am glad that my colleagues have come to the conclusion, after studying the evidence placed before us and before the Provincial Banking Enquiry Committees, that as regards initial capital for promotion of industries the existing facilities are very inadequate. They further add that the special necessity of making India more self-sufficient in respect of her requirements and less completely dependent on the precarious pursuit of agriculture makes it imperative that some steps should be taken to mobilize her resources for the promotion of new industrial undertakings and for the expansion of existing ones. In view of these two statements, with which I entirely agree, I consider the recommendation in the second sentence of para. 401 as rather weak and halting.

2. I am convinced, and I have no doubt that my colleagues are also equally convinced, that the establishment of industrial banks is not only desirable but absolutely necessary. I regret that with their minds fixed on the constitutional responsibilities of the ministers in the provinces, my colleagues have been led to make their recommendation vague and perhaps misleading. For, as the recommendation now stands, it seems to imply that the case for the establishment of such institutions has still to be proved before the Provincial Minister takes any action. The Industrial Commission which considered the matter in 1918, along with various other problems relating to industries, recommended the constitution of an expert committee to consider the question of the establishment of industrial banks for financing industries in India. The Banking Committee, which is surely an expert Committee of the nature contemplated by the Industrial Commission, would be failing in its duty if it did not unequivocally press for the establishment of industrial banks in the provinces, the need for which has been emphatically pressed by all the Indian witnesses, including important chambers of commerce, and also by some of the European witnesses of the so-called conservative school. I do not think, therefore, that it will be necessary for the future ministers in the provinces, at any rate in those provinces where the Banking Committees have recommended the creation of industrial banks, to go over the same ground as we, and other Commissions and Committees before us, have traversed.

3. Assuming, in agreement with my colleagues, that it would be wasteful in provinces where industries are not sufficiently well developed to start industrial corporations for utilizing the financial facilities that may be provided by the industrial banks, I should still urge that the evidence placed before the Provincial Banking Enquiry Committees and the conclusions they have reached thereon, as also the evidence before the Central Committee, provide sufficient materials which may demand a conclusive recommendation

as to which of the provinces have an unmistakable need for an industrial corporation and which of them have not. In regard to the latter, the Governments concerned may perhaps be advised to await future developments before proceeding to inaugurate the industrial corporation such as we have in mind. But conditions in Bengal, Madras, and Bombay at least are fully ripe for the establishment of industrial banks and we shall not be justified in giving the Governments of these Provinces what seems to me the mistaken impression that the question of providing financial facilities through a specially devised institution is still an open question, calling for further enquiry. Their aim and endeavour should rather be to take up the threads where we have left them and to inaugurate the next step, namely, the creation of the financial machinery for encouraging the industrial development of the provinces.

4. I must here refer to the lukewarm support, if not positive hostility, of some of the European Chambers of Commerce and even the foreign experts, to the proposal of establishing separate institutions for industrial finance. It seems to me that there is a danger, from which even some of my colleagues on the Committee are not wholly free, of being carried away by the notion that for stimulating the development and strengthening the position of industries in India it is not essential to establish any special institution of the nature of Industrial Corporation, it being contended that the clamour for provision of special finance to industries is due to the inaptitude of the Indian people. To my mind such a contention appears to be quite unjustifiable in the light of the experience of all the industrially advanced countries of the modern world. The only notable instance of industrial enterprise which grew up without financial assistance from Government or specialized industrial banks, is to be found in Great Britain. The British witnesses who have appeared before us have naturally tried to convince us of the folly and futility of devising special measures for financing industry. But it must be borne in mind that England is a singular instance of an industrial nation which has risen to eminence more or less purely on the strength of individual initiative. The conditions, in which that country was originally industrialized, were peculiar to it. It was altogether free from the intense and fierce competition to which world industry has been subject in the present century, and by the time world industry passed into this phase, Great Britain had begun to enjoy a large national surplus which was far in excess of the needs of her domestic trade and industry. Owing to the vast expansion of her trade and commerce and owing to the fact that London had become the entrepot of world trade the financial mechanism of the City had become so perfect, that the direction of the fluid resources of the country called for no special machinery or effort. In short the development of English industries was from small beginnings and gradual; and when they entered upon a period of large expansion, they found a ready and more or less efficient money market in London. Since that time, however, the conditions in which trade

and industry could flourish on a policy of absolute *laissez-faire* have not been present in any other country. It is not present even in Great Britain to-day! Under stress of modern competition and with the paramount need for rationalization, opinion in Great Britain has veered in recent times to the closer co-operation of finance and industry, secured by means of a body acting as an advisory and regulating organization between the two.

5. It is necessary, before detailing the practical effects of that change of opinion to note the harm which has been done by the attitude of unconcern adopted by banks towards the actual internal management of industry. In the case of the British cotton mill industry, it has been found that banks had been continuously making advances without any attempt to satisfy themselves that the use of those funds resulted in any appreciable improvement of the financial position of the mills concerned. The result has been that both the banks and the mills are in the slough and further accommodation has been denied just when they are needed most. The opinion of the Expert Committees appointed to enquire into the state of British industry is that if the Banks had (on the strength of the advances which they were making) acquainted themselves with the details of management and had exerted their influence in favour of the reconstruction and re-organization, the position of the industry would have been better and the banks also would have suffered loss. All this only shows that even the only country which followed a policy of *laissez-faire* and on which the " conservative school " (as the report refers to them) has relied, has later on come to grief by persisting in that policy, when it would no longer serve. That Great Britain has at length realized the wisdom of devising a closer link between banks and industry is amply demonstrated by the establishment of such institutions as the Securities Management Trust, and the Banker's Industrial Development Company.

6. It will be clear from the foregoing that it was essential even for a country like England, where individual resources were so large, the investment habit so ingrained and the capital market so well-organized, to set up specialized institutions for providing the necessary financial equipment and help the rational management of industry.

7. In regard to nations which industrialised themselves later than England, the initial impetus, the subsequent progress and the maintenance of the position gained, have all been due in no small measure to the establishment of institution for providing long term credit and other assistance to industrial enterprise. The German system, which is roughly representative of the system followed in all the countries of the Continent, has been summarized in paras. 386-388 of the report. The description of the system as contained in the summary is not only inadequate but the lesson of the German experience has not been duly appreciated in formulating the recommendations of the Committee. The German Banks play a large part in the provision of long term capital.

They have satisfied the need for an institution to educate and encourage the general public in investing their surplus funds in industries. There was a place for some kind of agency which should obtain the confidence of the investing class, and use this confidence to direct their capital towards sound industrial undertakings. It was primarily the filling of this place that called into being the credit banks of Germany and accordingly these banks gave a prominent place in their programme to the promotion of joint-stock companies. The German investors are even now, after a long period of industrialization, reluctant to participate in any undertaking before it is fully launched and they have a peculiar preference for projects in which a leading bank has interested itself. (*Vide* Whale's book, pages 11-12 and 40.)

This intimate relation between banks and industries is clearly emphasised by Dr. Jeidels, the German expert on industrial banking, who collaborated with us, in the following words:—

"The banks attend an industrial undertaking from its birth to its death, from promotion to liquidation, they stand by its side while it passes through the financial processes of economic life, whether usual or unusual, helping it and at the same time profiting from it." (Quoted by Mr. Whale, page 52.)

8. The interest which the German Banks take in respect of the development of local industries, and which I have endeavoured to describe above, is still being maintained. It is no doubt true that during the War, the banks had to give their attention mostly to the business of financing the Government by the flotation of its loans but the industries in their turn, thanks to war profits, could afford to be independent of any help from the banks. But the situation was again reversed after the mark had been stabilised. The re-organisation of the whole German national economy—including the industrial concerns—as a result of the stabilisation brought into clear relief the evil effects of the inflation. The losses sustained by the industries due to this fact made the industries again to depend on the banks for their financial requirements, and as pointed out by S. G. Feodossief in an article in the Bankers' magazine, (June, 1930), "to a much greater extent than before the War, the advances made to industry by the banks, especially during the first year after the stabilisation of the mark (1924), were long term credit for the purpose of replenishing the permanent liquid capital and some times of providing fixed capital". The banks have also in later years utilised their foreign connexions by intervening "as members of foreign syndicates for floating new industrial issues on the European and American markets".

9. The importance of the German system in regard to our enquiry consists in the fact that it is representative of the systems which obtain in most countries of the Continent, and it should be highly instructive and interesting to us in considering the needs of a country like India, where there is little or no co-ordination of effort in matters relating to banking and development of industries.

10. Belgium owes a great debt to her banks for their services to industry. As in Germany, the banks were the only source from which Belgian industries could obtain financial assistance. Hence a close relationship between banks and industries grew up in that country at a comparatively early stage. In fact the Societe Generale de Belgique (established in 1822) was the first Joint Stock Bank in Europe to adopt a purely industrial policy involving some degree of control over the various industrial concerns in which it was interested. Others followed and are operating successfully to-day to the advantage of Belgian industry.

11. In France, on the other hand, along with the commercial banks, a specialised type of institutions called " Banques d' Affairs ", has grown up for the purpose of financing industries. These institutions which are in essence " Investment Banks " assist the industries very much on the lines of the German Banks, partly by participating in their capital and partly by placing their bonds and shares with the public.

12. In no other country, perhaps, is the connection between banking and industry so close as it is in Switzerland. The specialisation there has been carried on by the Trust Banks, whose function consists in issuing their own bonds and utilising the proceeds, partly to grant long term loans and partly for participation in the capital of industrial enterprises. The remarkable development of the system of deposits and savings accounts has been of great assistance in helping industries.

13. It may also be pointed out in this connection that even in other countries where industrial finance was largely taken up by commercial banks, the conviction is steadily gaining ground by experience, that these banks are not equal to the task of providing long term credit to industries.

14. In Italy, for example, the commercial banks were led to make advances to industrial concerns by purchasing their shares and these created such complications that a special institution had to be created to take over these long term securities. There was established lately the Societa Financiaria Italiana, with the object of taking over the industrial securities held by the Credito Italiano, which, in spite of local runs, was not intrinsically unsound.

15. While the continental banks were specialising in the financing of industries, Japan was not shown in putting into practice the principles and methods of the west. In fact she has gone a step ahead and created a special institution for expediting the industrial progress of the country. The Industrial Bank of Japan was established in 1902 with the object of financing Government loans, advancing against Government and semi-government securities, as well as against ships, shipbuilding materials and accessories, and other industrial issues. It could, with the approval of the Minister in charge, subscribe or underwrite share and stock issues. It could issue " Industrial Bank Bonds ". Government control is exercised through the Minister in charge, who appoints to " Controller " for superintending the business of the Bank. The

minister's approval was required for payment of dividend to the shareholders. Originally the Government also guaranteed dividend up to 5 per cent. for 5 years. Although the Government does not participate in the capital of the Bank, it lends to a considerable extent at a moderate rate of interest out of the funds at the Deposit Bureau, the Department of Finance. Further, the Government guarantees the capital redemption and interest payment of the Industrial Bank of Japan loan bonds, in case such loans are floated in foreign countries. The favourable effect of the establishment of the Bank on Japanese industries has been quite remarkable.

16. Among recent endeavours to make suitable arrangement for providing long term credit to industries a reference may be made to the example of the Industrial Trust Company of Ireland, which was started in 1926 with direct assistance from the Irish Government. One of the functions of the Trust was to facilitate the financing of such enterprises as had previously received advances in the form of Government guarantees, under the Trade Loans (Guarantee) Acts, which were then due to expire. In 1926, when the Banking Commission of Ireland submitted its reports, the Trust had a paid-up capital of about £163,000, of which £50,000 was held by the Government, £50,000 by the banks and £50,000 by American subscribers. The public character of the concern was ensured by nearly two-thirds of the stock of the Trust being held by the Government and banks. In the Third Interim Report the Banking Commission recorded its appreciation of the importance and usefulness on the Industrial Trust Company, as being a suitable medium through which arrangements for long term credits might be made and recommended that the Government support to business might be continued and administered through the aforesaid Trust Company. The Commission further recommended that the practice of direct Government guarantee on industrial bonds should be discontinued thereafter, and proposed that in the future such guarantees as the Government might be disposed to make should be confined to the Bonds of the Industrial Trust Company, which would then be left to advance funds to enterprises approved by it, subject to certain specified conditions.

17. A study of these facts leads to the following conclusions. First, private initiative and enterprise alone cannot be depended upon to provide the necessary financial aid to industries. Secondly, some special institution is required for providing long term credit, infusing confidence among the investing public and leading them to invest their capital in sound industrial securities, as also for initiating schemes for re-organisation and rationalisation of industries if and when necessary. The special institution contemplated should, as a rule, be a distinct organisation, apart from the commercial banks.

18. The observation that industrial credit should, as a rule, be provided by a special type of institution distinct from the ordinary Commercial banks is particularly true with reference to the conditions which prevail in India. The commercial banks in this

country cannot undertake the responsibility, as their deposits are mostly for short periods and they cannot afford to tie up any portion of their capital or reserve in financing industry. They require all their resources to maintain public confidence in carrying on their legitimate business of commercial banking. This caution is particularly necessary, as the failure of any such institution would disturb the commercial banking structure, which is now in the initial stage of development.

19. It is true that in some countries on the continent of Europe, particularly in Germany, the responsibility of providing industrial capital has been satisfactorily discharged by commercial banks doing mixed business. But it should not be overlooked that in those countries there were special circumstances which made it possible for them to meet the varied capital requirements of industries. First and foremost, the banks, in many cases, had immense resources of their own in the form of capital and reserves, enabling them to provide long term loans to that extent. Besides, the banks in these countries were not embarrassed if their funds occasionally happened to get tied up in industrial investments as they could easily avail themselves of an already developed capital market within the country in which the industrial securities lying in their hands might be disposed of whenever necessary. On both these grounds, the disparity between the conditions on the continent of Europe and those in India is markedly pronounced.

20. It has been suggested that the task of industrial finance in India might be left over to the private Issue Houses and Investment Trusts. I do not deny that institutions of this kind have been found to be very useful in supplying long term capital to industries, particularly in England and in America. But I need hardly point out that there are at present no such institutions in India, and I do not think that circumstances are quite favourable in India for the establishment and successful working of these institutions in sufficient numbers at this stage; nor can I accept the view that these institutions alone could be regarded as a dependable machinery to provide the necessary industrial capital. The creation of such institutions generally follows and does not precede public demand for investment information and facilities. I am confident, however, that when, as a result of a greater industrial progress and development, and as a result of growing public confidence in the industrial system of the country, private Issue Houses and Investment Trusts will be established in sufficient numbers, the latter may be expected to take up their share of the responsibility of financing industry and supplementing the work of the institutions that require to be created specially for the purpose.

21. For almost identical reasons I find it impossible to endorse the view that individual industries should depend for their long term financial requirements on the debentures issued by them. The success of this method of capitalising industries on a wide scale is presumed to rest on the idea that such debentures are popular and that there is in existence the machinery of investment institutions

as intermediaries between the borrowing industries and the genuine investing public, which can make such forms of investment popular. It is conceivable that a few very big industries can, with some measure of success, depend on the issue of debentures for their financial requirements, but the numerous middle sized industries would not be able to raise capital by this method. And although capital has, in many cases, been successfully raised through individual private initiative, no organised efforts have hitherto been made to ensure its steady supply in respect of all efficient and promising industries. In fact the supply of industrial capital has been retarded by the failure of many concerns brought about (amongst other causes) by the very want of timely financial aid and the currency and fiscal policy of the Government exercising a depressing influence on their prospects. Even to make the raising of industrial finance by the issue of debentures a success the creation of an agency, strong and sound enough to counteract the depressing influence mentioned above, is eminently called for.

22. The difficulty of obtaining industrial finance is often ascribed to the shyness of Indian capital, owing to the nervousness of investors. I think, the shyness is due not so much to the attitude of investors, as to the fact that hitherto no systematic endeavour has been made in this country to create a status in favour of indigenous industries, directly and indirectly, through Government support calculated to inspire confidence among investors. In India the attitude of absolute unconcern shown by the Government till recently towards the development of indigenous industries, has long remained a strong deterrent factor in the matter of industrial investment. The fiscal policy of the Government, which was often subordinated to British Industrial interests, coupled with adverse railway rates and stores purchase policies, have very naturally stifled the initiative of promoters in many cases, while investors have mostly lost their faith in the success of new industrial ventures. The alien character of the Government subordinating Indian to British industrial interests, the gradual decadence of Indian industries in certain areas, accentuated by the unequal competition of imports of British manufactures had all combined to create a most pessimistic outlook in regard to the prospects of indigenous industries, particularly those owned and managed by Indians. The pro-British tendency commonly, associated with the Governmental policy yielded the curious result that industries in this country under the management of British firms have come to be looked upon as the safest channels of industrial investment, while Indian managed industries have not been able in many cases to inspire similar confidence. The dearth of finance suffered by the latter has not been due, as I have already pointed out, so much to the shyness of Indian capital which is disproved by the steady increase of investments in other directions, particularly in the form of bank deposits, Government securities and investments in European managed concerns. The hesitancy of the investors aris-

ing out of the circumstances mentioned before, has proved a stumbling block to the industrial renaissance of India and it has little chance of being removed early unless the Government acknowledge the responsibility of radically changing the whole industrial outlook of the country. No doubt they have made a beginning by moving towards the right direction since the outbreak of the War, to which reference has been made in our report. The Government have recognised the claim of discriminatory protection, and have appointed a Tariff Board to consider the demands of particular industries for protective tariff. But these have not yielded any results commensurate with expectations, and have been regarded rather as half-hearted concessions to the public demand. What is required in the particular circumstances in India is an active and vigorous industrial policy pursued by the Government, which should be reflected in their fiscal, currency, railway and stores purchase policies. They must truly identify themselves with the economic interests of the country and follow the active policy of the Government of Japan, which has been raised to the status of a first class industrial country in course of less than half a century. Such an attitude on the part of the Government can alone create a favourable atmosphere which may be assuring to the investors in regard to the prospect of indigenous industries, leading them more and more to employ their surplus capital in industrial investments.

23. It is clear from a study of the conditions in India and the experience of foreign countries, that industrial development requires the active support and direction of a body specially created for the purpose. We require an agency which will attract and mobilise private funds for investment in the capital market for industrial purpose. This agency would work with funds drawn from the investing public and by its efficient organisation, expert care and supervision so regulate investment as to minimise the chances of loss of capital.

24. The Committee's recommendation in this regard should, in my opinion, be quite unequivocal and they should throw the weight of their support in favour of the creation of industrial corporations. The question would then be, how far we can indicate the details of the constitution and working of the industrial corporation. It has been suggested that in formulating the required legislation, the provincial ministers should have liberty to devise measures to suit the conditions in their respective provinces; and I agree with my colleagues that it is inadvisable to lay down any hard and fast rules. But I am sure that when the ministers take up questions concerning industrial banking they will turn to this Committee's report for guidance on fundamental issues. This Committee could, therefore, discharge its responsibility by enunciating certain fundamental principles for the guidance of future ministers.

25. My colleagues intend that the proposed industrial corporation should specialise in the provision of long term capital to

industries and they have not attempted to lay down any practical suggestions regarding the functions of the corporation. It is difficult, I agree, to anticipate all the credit demands that may be made upon the corporation by the existing industries as well as those which will come into being at a future date. But, in order to make these institutions really useful for stimulating industrial development of the country, I am of opinion that the corporation should take upon itself, as a matter of policy, at least the following specific functions:—

(*i*) Granting long term loans to industrial concerns on the security of their assets or against debentures secured by those assets or against industrial shares;

(*ii*) Underwriting or subscribing the shares and debentures of industrial concerns;

(*iii*) Taking long term deposits from the public;

(*iv*) Lending money to industrial concerns for short periods when funds are idle, through discounting their bills or otherwise;

(*v*) Acting as trustee for individual concerns, raising money by debentures on their own assets;

(*vi*) Guaranteeing interest on the principal of approved industrial debentures or loans.

26. The desirability of establishing an industrial corporation with a scheme of Government participation in its finance has been questioned on the ground that it may eventually become responsible for a dangerous strain on the revenues of the Government through lack of proper guidance and control over its investment methods. In due recognition of the weight of such contention I should like to emphasise the need for certain precautionary measures for controlling the practices of the corporation with a view to keep them within the limits of safety. Such measures are necessary not only for safeguarding the interests of the Government but also for the absence of experience in the new line of business, and the danger that some reverses suffered by the corporation at the initial stage, may retard the progress of industrialisation beyond all hopes of early recovery.

The measures I would recommend for this purpose are sufficiently indicated in the following points:—

(1) In making loans, the Corporation should satisfy itself that there is the proper margin and that the concern will be able to pay the interest and principal on stipulated dates. In the case of debenture issues of industrial concerns, it should satisfy itself that they will be able to make adequate allocation to the sinking fund to redeem them on the due date. Through its continuous contact with the industrial concerns it should see that proper allocations are made as required.

(2) It should not make any investment in any speculative ventures nor extend any financial aid in any particular line of industry which is already threatened with over-production or has otherwise become unsound.

(3) Regarding its own debenture issues it should provide adequate sinking funds for redemption and also build up suitable reserves out of current income.

(4) When underwriting, subscribing to or granting loans against industrial shares, it should assume only a reasonable proportion of these obligations.

(5) The extent to which it assumes such obligations should be determined by its ability to liquidate them within a reasonable time.

(6) To safeguard its commitments in these concerns and the interests of the investing public on whose confidence it will depend for its success, it should maintain a permanent and continuous touch with them, somewhat on the German model. It should associate itself with the management through representatives and receive information about them not only when matters are bad, but long before this stage is reached, so that it might initiate and suggest reorganisation and other remedial measures to avert possible loss to the parties concerned.

(7) Provision should be made to distribute the assistance it gives to industrial concerns so as to minimise the possibility of its resources being tied up in one or two concerns or one or two classes of industries.

27. My colleagues have not ruled out the possibility of creating an All-India Industrial Corporation in future for looking after industries of national importance, the development of which will fall within the functions of the Federal or Central Government. It has been suggested that the All-India Corporation may secure proper liaison in the matter of finance and a direct connection with the large spending departments of the Central Government as well as direct correlation of the industries as a whole with railway rates, customs, stores purchase and other policies of the Central Government. My colleagues have kept the question open, to be finally decided by the demands of the Provincial Governments requiring the services of such a central co-ordinating agency to advance their common interests, or if its need is otherwise established to the satisfaction of the Central Legislature. Industries of national importance at least for some time to come, would not be so numerous as to justify the establishment of a Central Corporation enabling it to invest its full resources on a remunerative basis. The financial requirement of the existing national industries might be met directly by the Central or Federal Government either giving direct loans or guaranteeing the interest on debentures issued by such industries.

The actual grant of any loan or guarantee of interest to any such industrial concern will naturally depend on the merits of each case. A pretty long time might elapse before the number of such industries would sufficiently increase to justify the establishment of the proposed corporation. But before that stage is reached, the co-ordinating and supplementary functions proposed to be entrusted to the All-India Corporation, will remain no less urgent from the point of view of the Provincial Corporations. I should, therefore, propose that pending the establishment of the All-India Corporation, the contingency might be effectively met by an All-India Industrial Board, vested mostly with advisory functions. The Board should be constituted of some Government Members of the Industries and Finance Departments, representative businessmen concerned with banking, finance and industry, and representatives of Provincial Corporations.

28. The functions of the Board will be as follows:—

(1) To maintain a staff of experts, if found necessary, whose services will be available to the provincial corporations for examining schemes in connection with their investments in industries.

(2) To keep up to date the results of the industrial survey by studies and researches conducted by the experts.

(3) To give suitable advice regarding the terms and conditions of issue of debentures of the corporations, and, if necessary, help in getting them subscribed.

(4) To advise regarding the general policy to be followed by the provincial corporations in investing in shares or debentures of industrial concerns, or underwriting or promoting their issues.

(5) To advise the corporations regarding the financial assistance they may render to industrial concerns, with special reference to the advisability of seeing that neither overproduction nor undue competition is encouraged.

(6) To enquire into the organisation of the Indian Industries and make any recommendations to them that would improve them in the light of experience in India and elsewhere.

(7) To advise the Government regarding the commercial and industrial education in India and to suggest necessary improvement, on the model of the United States of America Bureau.

(8) To formulate schemes for drawing out small savings for investment in industries and suggest means for popularising them.

(9) To advise the Government and the Provincial Corporations in matters relating to the flotation of inland and foreign loans for industrial purposes.

(10) To urge on the Central Government the need for framing their fiscal, financial, railway and stores purchase policies in consonance with the interests of Indian industries.

(11) To take such other necessary action, consistent with its status, to protect or advance the interests of industries in general.

29. I need hardly point out that some of the functions proposed to be vested in the All-India Board are of sufficient importance to indicate the desirability of a distinct status being given to it rather than its being considered a superfluous adjunct to the Provincial Boards. The All-India Board should take the lead in initiating periodical surveys of Indian industries, to suggest that true lines of progress by avoiding the dangers of overproduction and waste. From its very inception it could come to the aid of the various Provincial Governments in formulating their respective programmes of industrial reconstruction which will demand not only expert advice but also the guidance of some central agency viewing the different Provincial Schemes from a wide national perspective. Divorced from such a national outlook the programmes of different provinces may lead to a development on parallel lines, leading to the risk of interprovincial competition in particular industries while others might remain comparatively ignored. This would mean needless national waste which can be avoided by the intervention of such an agency as the All-India Board. The services of the latter relating to the collection and dissemination of statistical intelligence would be useful to all the Provinces by giving them a lead in regard to the volume of industrial production in their respective spheres. Such statistics of production are now being compiled on a strict scientific basis in almost all industrially advanced countries of Europe and America with great advantage to their respective Governments enabling them to follow a definite policy regarding currency and credit while the same has been found useful to the industrialists as giving an insight to the general conditions of production throughout the country. The need for such statistics in India cannot be over-emphasised and the most suitable agent that might be entrusted with such functions should be the All-India Board. Needless to say that for securing the necessary uniformity in the matter of collecting statistics the Board will require the support of the Central as well as of the Provincial Governments. For efficiently discharging its function of guiding the industries in India it would have further to keep itself apprised of the world conditions of production and consumption of such articles as are produced in India and publish the relevant statistics for the benefit of the industrialists at large.

30. In conclusion I may refer to some points whereon my views are to some extent divergent from those of my colleagues. My colleagues have proposed in paragraph 403 that the debenture issues of the Provincial Industrial Corporation should at the outset be limited to twice the amount of its share capital. This proposal,

together with the other that the permissible limit may be raised at a later stage does not pay due regard to the consequences which such restriction would bear on the revenue earning position of the Corporation. Nor does it clearly emphasise the need for ensuring the adequate security of the debenture issues beyond that at the initial stage, the additional security provided by capital should be so high as 50 per cent. of the debenture issues under the specified proportion. I would, therefore, propose to fix the proportion in closer consonance with the principles that should underlie the issue of debentures, *viz.*, security and elasticity, in the following manner.

31. The share capital of the Corporation should be supplemented by debentures under the conditions that the amount of debentures should in no circumstances exceed the amount of the outstanding long term loans and further, must not be more than five times the amount of share capital. I do not think that in fixing this proportion any risk is involved, for if, as I have proposed, the debentures be covered at all times by long terms secured investments with ample margins, the additional security provided by capital coming up to 20 per cent. of the total debenture issues must be considered sufficient. On the other hand a moderately high proportion of debentures may be necessary for carrying on such volume of business as would enable the Corporation to earn a profit for the shareholders after meeting the necessary current expenses, within a reasonable period of time. For, unless such prospect of earning a dividend is assured the shares of the Corporation may not successfully attract private investors.

32. I am also constrained to express my dissent from the opinion of my colleagues, as contained in paragraph 406, that the Industrial Corporation may take deposits only if the deposits are for comparatively long terms of two years and over. While I entirely agree that the activities of the corporation in the field of deposit-taking should not set up any undue competition against the commercial banks, I am convinced that this measure of safeguard would be sufficiently provided if it be laid down that the corporation should take term and current deposits only from those industrial concerns whose block and other asset are mortgaged to it. This is advantageous to such industrial concerns inasmuch as they can obtain short term accommodation from the corporation for working expenses, which otherwise may be denied to them by other banks or capitalists, with their assets mortgaged elsewhere. For the corporation itself it is an advantage since it can keep a day to day watch on the business of the concerns. This practice would be strictly in consonance with the "one bank, one client" idea and would not involve any difficulty on the score of setting up competition with the existing banks, as such cases of granting short term advances would not be so numerous as materially to affect the business of existing banks, nor would such advances be available, so far as the Corporation is concerned, for all classes of borrowers.

III.—FINANCING OF FOREIGN TRADE (CHAPTER XVII).

1. In paragraph 477 of the Report the majority have observed that " speaking from the point of view of trade alone, it may be said that the facilities available at present for financing India's foreign trade both import and export, are sufficient ". This statement is true so far as it means that the number and resources of the existing exchange banks are fully equal to any demand for finance that may be made by the export and import business of India. But surely this is not all! To have adequate resources is one thing. But whether those resources are used impartially as among the different classes of traders, Indian and European, is quite another. In other words, it is just possible—and allegations have been made to this effect—that though there are resources available for trade, those resources are not available in an equal degree to individual traders. The distinction between " trade " and " traders " so vital in this context, seems to have been overlooked by the majority. The Committee may feel satisfied that there is no lack of resources for meeting the requirements of foreign trade. But it would still remain to enquire whether individual traders are having a fair share of these facilities and whether such resources are being used to subserve what may be called the broader national interest, *viz.*, the increasing participation of nationals in the country's foreign trade. If the last mentioned objective is not before us the present adequacy of resources will be a matter of comparatively little significance.

2. But without further elucidation what I have just said does not reveal the whole truth in regard to the existing conditions of financing India's foreign trade, particularly as it does not give an insight into the facilities as respectively available to different sections of traders, European and Indian.

3. No doubt the statement in the Report of the majority is a qualified one, as it is followed by some observations which should help one to comprehend its real significance, but in detachment from these qualifying remarks there is a danger of the statement being misconstrued in the sense that the facilities available at present are sufficient for the traders concerned.

4. I, therefore, feel that it is necessary to emphasise the distinction between the two aspects of these facilities, *viz.*, their availability for the trade as a whole on the one hand and for individual traders on the other. In fact, the real question at issue is that associated with the latter. For purposes strictly germane to our enquiry, the more important problem is one of facilities available to Indian traders and firms from the exchange banks which are all non-Indian institutions holding a virtual monopoly of the exchange business. Looked at from this point of view it is impossible to maintain, in view of the evidence placed before us, that the existing facilities are ' sufficient '. Owing to the fact

that the foreign trade is mostly in the hands of non-nationals it will be found that these facilities are available to them to a great extent. But the point I wish to emphasise is the different attitude of the bank officials towards their European and Indian clients. I believe that the present low proportion of our share is due to the helpful advice and financial and other assistance which were available to non-nationals, but which have not been available, at least to the same degree, to Indian businessmen. Several witnesses including representatives of important Indian Chambers of Commerce have pointed out that Indian exporters and importers do not get all the facilities they require and that they are seriously handicapped by the discriminatory dealings of foreign banks. Even though a large number of instances may not have been placed before the Committee in support of these allegations, the few that were produced, taken together with other circumstantial evidence gave clear indications of the differential treatment that is being meted out to Indians. The reasons which must have impelled most of the witnesses to withhold even such evidence as might have been in their power to give are so obvious that I need not mention them here. Those who ask for documentary evidence in support of these allegations might with equal justice and propriety turn to the exchange banks for a more convincing reply to these charges than they have so far been able to put up. Instead of resting on the "onus of proof", they could, for instance, point to specific cases in which Indian firms and individuals have been helped to expand their business through their co-operation.

5. I regret I cannot find my way to join my colleagues in the non-committal attitude they have taken in this matter. For even apart from the complaints of Indian traders and firms, which, I cannot but believe, have a substratum of truth, the discriminatory attitude of the foreign exchange banks is corroborated by other well-known facts. The most striking of these is the very meagre participation of Indians in the export and import trade of the country since the advent of the foreign exchange banks. The majority have referred to a statement made by the exchange banks showing a higher proportion. This cannot be accepted for reasons detailed in para. 437 of the Report. From the enquiries that I have been able to make I am inclined to believe that the actual proportion is about 20 per cent.

6. The representatives of the Exchange Banks Association stated that there was absolutely no racial bias in the granting of their facilities to trade and that the same rules and same standards were applied to both classes of customers. The complaint with regard to the Exchange Banks is not an isolated one but refers to all aspects of the British rule in India. We find that in all spheres of our national life, in trade, industry, commerce and Governmental transactions there is in operation a subtle difference of treatment due to the fact that the officials with whom we come in contact are mostly Europeans. To a large extent this is natural

as we cannot expect from foreign traders, businessmen and officials the same solicitude for our welfare and the same fostering care which we would expect from our fellow countrymen. How is it possible for us in these circumstances, to believe that the banking system alone is managed by such supermen that they will forget the instinctive urge to help their own friends and countrymen and go out of their way to help Indian traders and businessmen in the same degree? In fact, the representatives of the Exchange Banks themselves admitted that through social inter-course their European officials had more opportunities of obtaining intimate knowledge of the integrity and resources of foreign clients than that of Indians. One should have to forget the political and economic history of India for the last one hundred and fifty years to treat this claim of the Exchange Bank as anything other than an incorrect picture of the situation.

7. The majority have rightly stressed in para. 478 that " the extent of a nation's participation in its foreign trade depends considerably on the facilities which the banking system gives to its traders "; the truth of this statement has been amply demonstrated by the amazing progress which Japan has made during the last fifty years in this respect, due to the special assistance which the Yokohama Specie Bank, established in 1880, gave to the Japanese traders. The extent of participation by the nationals in the Japanese foreign trade has increased from less than one per cent. in 1874 to 69·6 per cent. of exports and 86·6 per cent. of imports in 1922 (" Present Day Japan," 1930, page 136). Our meagre share in Indian foreign trade is in striking contrast to that of the Japanese in theirs and unmistakably points to the scanty support given by, and the lack of sympathy of the exchange banks towards the requirements of Indian traders. There is no doubt that the share of Indians in the foreign trade of the country would have been far greater if the exchange banks had treated Indian and European traders alike and had given the Indians anything like the generous facilities which might have been expected from national exchange banks for the development and expansion of their activities.

8. The problem arising out of these circumstances is in my opinion, a grave one, and such as may demand of the Committee their special recommendations for removing the existing handicaps with the object of increasing the share of Indians in the country's foreign trade. It becomes graver still when viewed in the light of the facts that the foreign banks have been strengthening themselves and the foreign commercial interests without due regard to the effects on national banking and economy. I shall make an endeavour to examine these points for the purpose of bringing out such implications as have a direct bearing on our problem.

9. The first of these points necessarily raises a question with regard to the nature of foreign trade and foreign exchange bank-

ing. The majority have defined the financing of foreign trade as consisting of two parts:

" (1) the financing from the Indian port to the foreign port or *vice versâ* and

(2) the financing from or to the Indian port to or from the up country distributing or collecting centre."

10. Evidently the practice of foreign banks as prevailing in India includes both, but this is not accepted as a necessary function of banks financing foreign trade. In describing the functions of foreign banks in India the majority have stated in paragraph 39 that " they also play some part in the financing of inland trade, mainly on account of goods or produce in transit prior to export or immediately subsequent to import ". The majority have not questioned the propriety of such collateral operations of exchange banks in regard to the financing of actual exports and imports; nor have they examined, much less appreciated, the harmful effects that might result from the continued performance of these subsidiary functions by the foreign exchange banks. The danger arises out of the fact that if we allow foreign trade to extend beyond the port-to-port movements to the distributing or collecting centres up-country, the distinction between the financing of internal trade movement and the financing of foreign trade will tend to disappear; and foreign banks might well prove a serious menace to the development of national banking. As a matter of fact the Punjab Committee refer to the practice of the exchange banks in that province financing the textile imports right down to the consumer (Para. 106). The finance of foreign trade seems in theory and in practice to be confined to the port-to-port movements. As Mr. Spalding has pointed out,* the exchange banker comes on the scene as regards export only at the time of shipment. Similarly as regards imports the exchange banker would vanish from the scene as soon as he has brought the documents to the port and handed them over to the importer. This view is also supported by Mr. P. B. Whale† who says that the financing of foreign trade by banks in Germany followed the practice of English bankers and consisted in financing exports for the interval between the shipment of goods and the arrival of the purchaser's remittance; and in financing imports by opening credits, against which the foreign exporter draws drafts.

11. In this connection the proceedings of the ' International Conference on the Treatment of Foreigners ' held in Paris in 1929 will be found instructive. It was there claimed that there should be no restriction on the movements and activities of foreigners in so far as they are connected with the requirements of international commerce. In the course of the discussion it was accepted that the right of international commerce would not apply to the retail trade or hawking and peddling and that every nation could

* " Finance of Foreign Trade."

† " Joint Stock Banking in Germany," page 83.

reserve to its own nationals these subsidiary trades. In other words, international trade and commerce would be concerned only with the import and export of merchandise between port and port but not to the distribution of imports into the interior or the collection of the exports from the interior.

12. The practice of foreign exchange banks in other countries is also significant in this respect. In almost all countries foreign banks are confined to the chief financial centres like Paris and Berlin or to the port towns as in Egypt, Australia, Brazil and Argentine. In their advertisements the banks also point out that their branches are established at all important ports and have correspondents throughout the world. They do not generally claim to have branches at inland centres. The Yokohama Specie Bank has forty foreign branches, all in port towns. The Guaranty Trust Co. of New York has branches only in London, Liverpool, Paris, Havre, Brussels and Antwerp. The Comptoir National France has several branches in England, Belgium, Australia, India, and Egypt, but all at the ports. All foreign exchange banks have adopted this practice and have carried on their work in the interior through agents or correspondents.

13. The encroachment of the formidable foreign banks beyond the requirements of foreign trade finance as explained above restricts the scope for expansion of indigenous banks. They have been carrying on business in India long before the Indian banks were established, and this fact, coupled with their vast resources, enormous influence, and valuable goodwill, have placed them in a dominating position over the indigenous institutions. The latter having had no time nor opportunity to develop, have been rather hard hit by the unequal competition with them both in the port towns and in the up-country centres, where the latter have got their branches. As I will show presently the foreign Exchange Banks together with the Allahabad Bank have been able to gather nearly 80 crores of deposits as against the same amount in the case of the Imperial Bank and 55 crores in that of the Indian Banks. I do not deny that the Exchange Banks have been able to attract this huge amount of deposits even though they pay interest at a lower rate than the Indian banks; but this cheaper money enables the former to compete with the latter so far as inland business is concerned. The majority seem to have agreed with the contention of the Exchange banks that there is not much competition between them and the Indian Joint Stock Banks and the statement furnished by the Exchange banks and printed in para. 455 indicating the location of branches of Exchange Banks has been used to show that the number of such up-country branches of Exchange Banks is not large. But whether the number is large or small, it admits of little doubt that the foreign banks in these places do compete with the indigenous banks of the respective centres. That there are sufficient number of Indian banks in these places is also a matter which can be verified from the "Statistical Tables relating to Banks in India" and these banks

have been deprived of much of the business of financing local trade and the trade between these centres and the ports.

14. The report of the majority gives in para. 466 a statement showing the growth of deposits of banks in India, and concludes that there has been no change in the respective shares of the Imperial Bank, the Exchange Banks and the Indian Banks. As the Allahabad Bank is included among Indian Banks, I must point out that this statement is not one on which to base such conclusion. I give below a statement including the Allahabad Bank deposits among those of the Exchange Banks.

Reconstructed table including Allahabad Bank among Exchange Banks.

	Imperial Bank.	Foreign Banks.	Indian Banks.
1920	8,705	7,481	7,348
1921	7,258	8,573	7,063
1922	7,116	8,442	5,398
1923	8,276	7,937	3,676
1924	8,421	7,989	4,594
1925	8,330	8,000	4,846
1926	8,035	8,160	5,309
1927	7,927	6,913	5,403
1928	7,925	8,233	5,516

15. It will be noted from the above table that the deposits of Indian Banks have come down from 70·63 crores in 1921 to 55·16 crores in 1928, while exchange banks have been able to maintain their deposits very nearly, the figures being 85·73 crores and 82·33 crores respectively. It is true that there was a big shrinkage of deposits in 1921 and 1922 following the deflation, after the War but even then the result of the decade's operations has been decidedly in favour of foreign banks. Even if due allowance be made for the shrinkage in deposits due to the failure of some banks during the period for which figures are given, it is not correct, to hold with the foreign experts, that there has been no disproportionate growth of deposits of these types of banks. On the other hand, the increase in deposits of the Allahabad Bank from 9,35 lakhs in 1920 to 11,19 lakhs in 1928 is itself a sign of the movement of funds and this may become an inducement to some other Indian banks in the future to seek amalgamation with the British banks.

16. I cannot agree with the contention of the majority in para. 463 that it is not " a correct interpretation of the speech of Mr. Beaumont-Pease that the Indian branches of the Exchange Banks are not drawing on their head offices outside India but have more than enough funds from India itself ". In this connection

the majority have given a statement of the assets and liabilities of foreign banks in India. I give below the figures separately for British and non-British Banks:—

Detailed statement of position of British and non-British Exchange Banks' Deposits and Advances in India.

Current Accounts and Call money.			In crores of Rupees.
Non-Indian—			
British Banks	13		
Other Banks	2	15	
Indian—			
British Banks	17		
Other Banks	2	19	34
Fixed and short deposits.			
Non-Indian—			
British Banks	9		
Other Banks	3	12	
Indian—			
British Banks	18		
Other Banks	2	20	32
Outstanding Loans, etc., outside India.			
British Banks	16		
Other Banks	6	22	22
		Total	88 crores.
Total non-Indian Deposits			27 crores.
Total Indian Deposits			39 crores.
Advances in India.			
Non-Indian—			
British Banks	11		
Other Banks	4	15	
Indian—			
British Banks	26		
Other Banks	5	31	46
Investments in securities, etc.			
British Banks	24		
Other Banks	2	26	26
Bills of Exchange in Transit.			
British Banks	7		
Other Banks	3	10	10
Cash and other assets			
British Banks	5		
Other Banks	1	6	6
		Total	88 crores.

17. It will be seen that the British Banks have not borrowed in London or elsewhere for their operations in India. Though they have loans, etc., outstanding abroad to the extent of 16 crores, they hold securities for 24 crores in India. In other words, the foreign loans really represent investment of foreigners in Indian Treasury Bills. In the case of non-British Banks on the other hand the foreign loans amount to six crores while the value of their security investment is only two crores, that is, they use about four crores of their own money in India, while the British Banks have large amounts of unusable deposits which have led them to invest as much as eight crores in Treasury Bills. It is evident, therefore, that on balance the British banks do not have to bring money from abroad.

18. The figures also indicate a difference in the practice of British and non-British banks. The former have invested seven crores of Indian deposits for buying bills of exchange but non-British banks use three crores of their own money for the same purpose. In other words, British banks with deposits of Rs. 57 crores, have advanced 37 crores in India and maintain cash and other assets 5 crores, having invested the balance in securities and bills of exchange. The non-British banks with deposits of nine crores have lent the whole of it in the country.

19. The dominant position of the foreign banks has been utilised not only to advance the interests of their nationals but also to foster other subsidiary foreign interests in India. For example, Indian Insurance Companies have received very little encouragement from the Exchange Banks in their progress. By insisting on their customers obtaining their policies from non-Indian insurance companies they have practically shut out the Indian companies from this business. Definite instances were placed before the Committee in support of this complaint.

20. I have so far endeavoured to show how the foreign exchange banks in this country are conducting their operations without a proper regard for our national interests. The non-national outlook maintained by these banks has hindered to a great extent the development of monetary organisations of the country. This is clearly borne out by their lukewarm support and even opposition to any scheme of banking development and their pronounced lack of sympathy towards anything Indian. I am aware of the claims that are often made in regard to the services rendered to India by the British Exchange Banks. But I am sorry that I cannot agree to this evaluation of their operations. It is true that Indian foreign trade has been financed by them; but it is also true that this was done mainly because these banks wanted to finance the movement of the necessary Indian raw produce to England and to help the marketing of British goods in India. This pro-British feature of their operations was apparently so marked that other countries found that for marketing their goods and buying their own requirements of Indian produce, it was essential

that their own banks should be established here and that it was unwise to leave their interests to be looked after by British banks.

21. If these banks were really serving the interests of India, their attitude towards Indian traders and Indian banking would have been quite different from what it has actually been. In this connection I should first refer to the overshadowing importance of these foreign banks in our country. The position which they occupy in the Indian banking system far outweighs that which foreign banks occupy in other countries and they have not failed to take full advantage of this favourable position to prevent a proper reorganisation of the money market in India.

Time and again they have opposed measures in this direction, as such organisation would not only diminish their prestige but also decrease considerably their domination of the market. They opposed the first Central Bank proposal of 1900 with such vehemence that even the Government of India was forced to protest against their attitude. In 1904 they again opposed the proposal to allow the Presidency Banks to borrow in London to relieve monetary stringency in India. Their opposition continued till the appointment of the Chamberlain Commission in 1913 and persisted in an acute form even up to 1920 when the Imperial Bank Act was passed, debarring the bank from transacting exchange business. It was carried even before the Hilton Young Commission when they stated that they did not care much whether there was a Central Bank or not.*

22. Their indifference towards Indian interests is also shown in their attitude towards Indian Banks. There have been a number of bankers and monetary crisis during the last three or four decades, and I do not know of their having rendered timely assistance even to a single Indian bank. It was, on the other hand, pointed out by the Government of India in their despatch to the Secretary of State, dated 3rd December 1900, that they frankly prepared to let a crisis come though happily it was averted. As Mr. Pochkhanawala has observed in his written evidence to the Committee, " most of the foreign Exchange Banks do receive deposits from Indian indigenous banks, but they would not lend them a rupee without security, though amongst themselves they do large lending business on credit. They combine at every opportunity even against first class indigenous banks and by withdrawing, at the spread of any and every rumour, credit facilities in the matter of purchasing of drafts and telegraphic transfers, they jeopardise the position of the indigenous banks and lower their prestige in the eyes of the investing public and the brokers ".

23. I should also refer in this connection to the fact that the foreign banks in India have by the nature of their operations retarded the development of a discount market in this country. Generally speaking, import bills pass off into the hands of banks after acceptance. In India, similarly, import bills, if drawn in

* For all this information I may refer to Mr. Baster's book " The Imperial Banks ".

rupees, could have been absorbed by local bankers or the discount market if it were allowed to develop. Even when the bills are drawn in sterling as at present, the exchange banks, if they had been so inclined, could have devised suitable arrangements for placing them in a discount market. Instead of this, the foreign banks have been retaining in their own hands the bills which should have gone to a discount market,—this in turn, calling for large deposits to finance them. It is now contended by the Exchange Banks that these bills are in very small amounts and are of no use for a discount market. It is difficult to concede such an argument in the light of certain patent facts. If the exchange banks can lend as much as 30 crores to Indians on their local advances, including advances against import bills, in spite of the bills being in small amounts, surely a discount market could do the same and if it wanted to borrow on them it might rediscount them in parcels to make up sufficiently large amounts. It is not, therefore, the size of the bills which stood in the way of the creation of a discount market in India but the reluctance of the banks to part with the profits of this business.

24. Still another instance of the apathy of these foreign banks towards Indian interests is to be found in the matter of appointing Indians in the superior grades of their service. The majority have accepted two definite conclusions on this point, *viz.*:—

(*i*) that it is surprising that through half a century the foreign banks have not found one Indian whom they could appoint to a superior post and (*ii*) that the attitude of European Officers towards the Indian Staff has been a subject of criticism. This has led them to suggset that these banks should adopt a system of probationers on the model of the Imperial Bank of India. In view of the benefits they derive from the use of Indian deposits, I think the Government should insist on their training a suitable number of Indians for employment in the superior grades.

25. It is claimed that the appointment of staff is a matter to be determined by the shareholders. This contention is not tenable for several reasons. In the first place, it can hardly be denied that unless there was some special reason, the shareholders would not interfere in this matter. Secondly, it can no longer be contended that Indians are temperamentally unfit for banking. Apart from our ancient banking traditions we have proved ourselves capable of running such institutions on the European model even without the help of foreigners. Thirdly, if the present practice is defended on the score of political considerations, the same political considerations should impel us to demand a change. Fourthly, past records do not justify the assumption that Indians are less trustworthy than Europeans. Lastly, the argument that superior officers should be prepared for world-wide service cannot be accepted as the appointment of local men and the habit of

relying on them would reduce the number of general service men required and thus considerably reduce overhead charges.

26. These in brief are the problems confronting us, namely first, that the Indian exporters and importers are seriously handicapped by the step-motherly treatment of the foreign banks; secondly, that our general economic development is being jeopardised by their present mode of operations; and thirdly, that these are matters in which our nationals do not receive due encouragement. The situation demands immediate intervention by the Government particularly as these foreign banks are now holding a predominant position in the banking world of India.

27. The majority have referred to the treatment of non-national banks in other countries. They have found the licensing system fairly common and have suggested its adoption in India; but the terms of the license proposed by them fail to touch the real difficulty. Curiously enough, while they note that there are various restrictions on non-national banks in other countries, they have suggested reciprocal treatment on the basis of these restrictions instead of finding out the *rationale* of their existence and applying the reasoning to India. The Indian problem is a peculiar one and therefore calls for peculiar measures and it is unnecessary to quote precedents to justify them. Our problem is: how to give the Indian banks a fair field for development and extension by confining the foreign banks to their proper sphere in the port towns; and the measures proposed should be designed to accomplish this purpose.

28. I think that unless the Government takes an active interest in these matters, it is not likely that the exchange banks will willingly submit to any proposal to change their methods of operation or their policy in consonance with our economic interests. But it would be futile to leave the matter of such national importance entirely to the discretion of the foreign banks, and to be content with making certain recommendations to them to change their policy, having no obligatory sanction behind them.

29. As proposed by the majority, the purpose of the license is to regulate the future entry of foreign banks and in the case of existing banks it will be only a formal procedure. A license to have any meaning, must entail certain obligations, failure to carry out which, would be penalised by its cancellation. Apart from the submission of some statements the majority have suggested no obligations and this as well as the reciprocal treatment proposed by them could well be enforced without any licensing at all. In my opinion the conditions of the license should be more specific and effective and should include the following:—

(1) They (the foreign exchange banks) should confine themselves to port towns and mainly to foreign trade finance. They should not open any new branches in the interior.

(2) They should transact only such inland business as (*a*) making and taking temporary loans to and from banks,

(*b*) advancing against goods in port towns awaiting export or movement into the interior, (*c*) investment in securities to the extent necessary to keep a liquid position and (*d*) accepting deposits from the public.

(3) They should observe the conditions of the Indian Bank Act in so far as they are applicable to them.

(4) They should submit to the licensing authority duly audited balance sheets reports, returns, etc., of their Indian business in such forms as may be prescribed.

(5) They should submit to the same authority quarterly reports of their business transacted with Indian and non-Indian clients in such form as may be prescribed by the Reserve Bank from which it may be possible to decide whether there are grounds for complaints of discrimination against Indian clients or interests.

(6) They should make suitable provision for the training and employment of Indians in the superior grades of services, to the satisfaction of the licensing authority.

(7) They should distribute insurance business between Indian and non-Indian companies in accordance with the arrangement suggested in para. 34 of this note.

(8) They should have Advisory Boards at each branch, with a majority of Indian merchants and businessmen.

(9) They should not purchase shares in any Indian bank without the previous permission of the Reserve Bank.

(10) The licences will be issued for a period of five years and will normally be renewed. But if the licensing authority is convinced that a foreign bank is acting contrary to the policy of the Reserve Bank or against the general national interest, or has violated any of the conditions of the license, it may be cancelled after giving due notice to the bank.

30. I am aware that the majority of the Committee have accepted the principles underlying some of the terms suggested by me, but they have been content with making recommendations to the Exchange Banks to carry them out. It is possible that the Government may establish a convention with the Exchange Banks regarding some of the terms and to that extent they need not be included specifically in the licence. But if they fail to establish such a convention the terms suggested will have to be enforced by a licence.

31. I am aware that my proposed terms for the licence will evoke a protest on a question of principle, that these involve discrimination against non-Indian banks. I would point out, however, that the restrictions on the Exchange Banks are not proposed in a spirit of racial discrimination but are the minimum necessary to ensure the ordered development of Indian banking, and they are not calculated to inflict any hardship on the foreign banks.

Discrimination in this sense against foreign banks is now more or less common even among the commercially advanced countries. It may be legal as in the United States, or conventional as in the United Kingdom. In the United States of America the law prohibits the establishment of branches of foreign banks who have thus to organise subsidiary local companies for the purpose, or do mere agency work, while in the United Kingdom the Bank of England by insisting on a British acceptance for making bills eligible for re-discount has effectively prevented foreign banks from borrowing in the London market. In countries where there is no discrimination legal or otherwise, there is the national sentiment working against them. In fact, international rivalry, jealousy and diplomacy apply as much to banks as to other spheres of national expansion and development. Examples of these restrictions and special taxation regulations are given in the appendix to the report but it is essential to add that some of these restrictions have secondary effects on the working of foreign banks and that some restrictions obtain in practice though not in law. In the few countries, where there is no such restriction or discrimination, it is because the local banks are so powerful and organised that they have not required such protection.

32. I will now proceed to give my reasons for introducing some of the terms in the license:—

The restriction to port towns is necessary for the development of existing Indian banks and for the promotion and successful working of new ones. Moreover the Exchange Banks being mainly confined to port towns will have to utilise the services of these banks for their business in the interior and this will strengthen the position of the latter. It may be reasonable to claim that the operations of the foreign banks even at the port towns should be confined to purely foreign exchange business. But in view of the fact that they have been transacting other connected business in the past, I consider it advisable to allow them to continue conducting such operations so that they may not be severely handicapped. It has also been suggested that the existing up-country branches should be closed within a specified period. While I consider the suggestion not unreasonable in view of what has been stated above, I do not believe it will be necessary to go so far at the present moment, if all the other suggestions are adopted. Moreover, with the change in the political atmosphere and the general environment in which these banks will have to work, I believe such action will not be necessary. But if at any future time the Reserve Bank or the Government is satisfied that the closing of these branches is absolutely necessary for the development of Indian banks, the licensing authority will take suitable action.

33. The majority's suggestion to the Exchange Banks to adopt a scheme of probationers does not go far enough. I would refer to the practice in Italy, where foreign banks can hardly appoint their own nationals managers of local offices. In Turkey, there is a provision that half the superior officers of foreign banks should

be Turks. I might also refer to the International Conference on the Treatment of Foreigners, which contemplated that only one or two foreigners could be imported into any country as manager, etc., of foreign concerns. I think, therefore, that a suitable scheme on similar lines should be adopted by which a sufficient number of Indians may be appointed to the superior grades in these banks in a reasonable time.

34. In regard to the distribution of insurance as proposed in clause (7), I think, it is a matter of sufficient importance to be specifically provided for among the conditions of the license. In our discussion with the foreign experts it was brought out that in almost all countries one half of the insurance on foreign trade was done with national companies. There is no reason why the foreign banks should not allow Indian exporters to give policies of Indian companies. Where the banks themselves insure the business, I think it is but proper they should find it practicable to patronise Indian companies, as most of this business is for stored goods or inland business which a national government would reserve to local companies. I would, therefore, suggest that the proper allocation of insurance business between Indian and non-Indian companies should be settled by a meeting of representatives of the banks, and the associations of Indian insurance companies. But if they cannot come to an agreement, the Government will have to step in and arbitrate.

34A. I have referred already to the loss to Indian banking arising out of the acquisition of the Allahabad Bank by outside interests. I think that, at least so far as the future is concerned, we should provide against such contingency. While public opinion could in most cases exert itself in time to present it, and it might plausibly be argued that this is a matter for the shareholders to decide, I am of opinion that the wider interests of the nation require that the controlling interest of Indian banks should not be allowed to pass to non-nationals. I may also mention that the public in India knew of the acquisition of the Allahabad Bank by the P. & O. Banking Corporation only after it was an accomplished fact. So far as its re-acquisition is concerned, I discuss it separately in paras. 40 and 41.

34B. I have referred to the necessity to vest the licensing authority with power to cancel the license of a bank in certain cases. This is not intended to be an arbitrary power to curtail successful competition of individual banks or their liberty to transact the type of business, which they would handle. It is meant to be put in operation only when wider issues are involved. I have given examples to show when it may be considered that such action is called for. The foreign banks will have to work in co-operation with the Reserve Bank and in consonance with our national economic policy. Moreover, it will be the business of the licensing authority to see that the foreign banks do not give room for such complaints as are now made, *e.g.*, that they do not give Indian traders adequate facilities. It will, therefore, be

seen that the licensing system is proposed chiefly to ensure that the banking institutions in India may work in a spirit of goodwill and co-operation and be free from the bitterness and controversies now prevalent in the country, which, if allowed to continue, cannot but result in loss of business to the foreign banks.

35. The majority are of opinion that some of the terms and conditions of the license suggested by me would amount to discrimination and that it would not be expedient to adopt such measures. I may point out that effective discrimination can be hidden even under a cloak of justice. It was endorsed by the International Conference on the treatment of foreigners that the foreign institutions in any country would have to abide by any new measures applicable under the same conditions to national companies. The Exchange Banks also admitted that they would be prepared to abide by any such common regulations. Supposing it was enacted that no bank in India should employ more than half its superior staff from foreigners, to provide against policies adopted by say, the Imperial Bank of India and the Bank of India, would not this hit the foreign banks without involving discrimination? Supposing that it was proposed that five years after the starting of the Reserve Bank, it shall have power to declare, after due enquiry, that certain branches were unnecessary at certain towns and to call on the bank concerned to close the branches, would this not be effective discrimination? I am personally against such underhand discrimination. If it is considered wrong that the foreign banks should conduct their operations in a particular way I think it is far better to have it understood and legislate against it in an open manner.

36. The majority suggest that such legislation might evoke retaliatory measures against Indian banks and bankers in other countries and quote the case of Burma. I would point out that we are not suggesting any action against individual foreigners in India but against foreign banks. All banks in Burma are in the port towns and I do not think our restrictive action in India can justify their being driven out of the port towns in Burma. So far as the suggestion about Chettyars is concerned they are individuals and no restriction on their liberty could be justified on the basis of restrictions in India on banking corporations. But if Burma is separated and the Burmans feel that for the development of their own institutions Indian banks should be put under such restriction I would not object to it.

37. The majority have suggested that any restrictions on the foreign banks should be on the basis of "reciprocity". This is a much misused term, due perhaps to a failure to recognise its true import. Reciprocity is defined in the Encyclopaedia Britannica (14th Edition) as "The condition or state of being reciprocal, *i.e.*, where there is *give and take, mutual influence or correspondence* between the two parties, persons or things. In a more particular sense reciprocity is a special arrangement between two nations under which *the citizens of each obtain advantages* or *privileges*

in their trading relations with the other ". Judged by this definition, there can be no real reciprocity between India and any of the other advanced nations. As in our banking organisation, so in all spheres of activity we are behind all the others. " Reciprocity " in our case, therefore, can only mean giving away to others the unrestricted right of exploitation without any compensating advantage being received by our country. Reciprocity means " give and take ", but for us there can be no " give and take ", for while we are in a position to " give " as freely as we like (or even do not like), we are so heavily handicapped in regard to taking care of ourselves in our own country, that we have not the power or capacity to " take " anything from others. Reciprocity means " mutual influence " but while others can and do influence us very much to our disadvantage, we are unable to influence matters in our own favour even in our own country, much less can we hope to exert influence elsewhere. Reciprocity means " correspondence " between the two parties but there is absolutely no correspondence between us and the other nations who lay claim to reciprocity here. Reciprocity is a special arrangement between two nations for the granting of advantageous trade relations to each other. But it is impossible to see what advantages can accrue to any Indian bank in foreign countries in return for foreign banks being allowed uncontrolled domination in India. We are giving to these banks the real privilege of doing business in India, both at the ports and in the interior, and to transact any and every form of banking business, resulting in a profit to them of more than one crore per annum, yet we are supposed by reciprocity to have the same rights in England and other countries. What are the possibilities of any Indian bank entering a foreign country and competing in its inland business. When they are unable to compete in India even with the smallest foreign bank, what are their chances of competing with the " Big five " in England, the huge banking trusts in America, the " D " Banks in Germany or the great French banks?

38. It is to my mind very clear that there is no chance of any reciprocity between us and others at present. When we are masters in our house, when we have a chain of banks, some of which at least may compare with the bigger institutions of other countries, when our citizens occupy as important a place in other countries as foreigners do in India, then and only then can we seriously consider the terms of reciprocal relations. The foreign banks have already established themselves here and they may say " you may also come and establish yourself in our country ". Such an offer of reciprocity in the existing unequal conditions can be nothing but mockery.

39. According to the terms of the license proposed by me, foreign banks may continue to receive deposits in India. The majority have come to the conclusion that legislative measure for restricting the receipt of deposits by exchange banks are not immediately called for. While not agreeing with the arguments

adduced in this regard I do not dissent from their conclusion as I hope that conditions necessitating such a drastic course of action will not arise.

40. I now come to the complicated problem of the Allahabad Bank. It appears that not very long ago, there were three Indian Directors out of seven on that bank but by the continuous purchase of the Indian holdings there is now only one Indian Director and the entire management has passed into foreign hands. As most of the shares are held by the P. & O. Banking Corporation, over which the Chartered Bank has acquired the controlling interest, the Allahabad Bank is in effect a foreign bank. Unless its management is again transferred from foreign control to Indian hands, the trictions regarding operations of foreign banks would become ineffective as they could utilise the Allahabad Bank for extending into the interior of the country. The Chartered Bank or the P. & O. Banking Corporation should, therefore, be persuaded to arrange within a period of five years to dispose of its shares to the Indian public. This may be done in one of two ways. Either the shares may be sold off in small lots in the market or a new company may be formed to take over the assets and liabilities of the bank. In the former case there is bound to be undue fluctuations in the value of the shares according as it is the Bank that *has* to sell or it is the public that *has* to buy. If a new company is promoted, it could have a proper valuation made of the shares to be disposed of. For example on the basis of the balance sheet as of June 1930, the value of the concern would be about Rs. 90 lakhs, which corresponds very nearly to the share quotation of the bank. It is necessary that the Government should take the initiative in creating the new company and in negotiating for the acquisition of the bank. The foreign holdings in it were acquired by purchase at a market value and what is proposed is to reverse the action and let the shares go back to Indians. The majority claim that this would be an act of expropriation, but I think that there is nothing inherently wrong in acquiring such an institution in the national interest so long as proper consideration is paid to the parties concerned.

41. I have not overlooked the recommendation in para. 689 of the Majority Report that every existing Indian bank should have a majority of Indian directors. So long as the controlling interest in the shareholding remains in foreign hands the carrying out of this recommendation would only be in the letter and not in the spirit.

42. I have so far made an endeavour to consider the methods by which it should be possible to regulate the monopoly power of the foreign banks in the interest of Indian trade and banking. Such regulation as I have proposed in the preceding paragraphs would undoubtedly remove some handicaps which now retard the development of our participation in foreign trade as well as our internal banking. But these would not furnish a complete solution of our

problem for, as the majority have correctly stated in paragraph 481, " it is not desirable that India should rely for all time on the facilities afforded by non-Indian Institutions for the financing of her foreign trade ". The majority have, therefore, proposed the establishment of an Indian Excharge Bank, but the manner of their recommendations in favour of such an institution makes it impossible for me to agree with them. While favouring the establishment of a separate Indian institution later on, they would first like to try the experiment of " inducing " the Imperial Bank " to take an active share " in the business. I cannot accept as sound the proposal to make the Imperial Bank, the official Indian Exchange Bank, with all the privileges and status that the latter is proposed to be endowed with. Of course no one can have any objection to the Imperial Bank taking to exchange business, after the Reserve Bank is established, but if it so decides, it should do it on its own initiative and responsibility, and no special concession need be made to the bank for this purpose. But I cannot contemplate the transformation of the Imperial Bank into the Indian Exchange Bank for the reasons stated below:—

(1) I think that the argument which weighed with the Hilton Young Commission when they opposed the proposal of converting the Imperial Bank of India into the full-fledged Central Bank of the country holds as good in this connection. The experience and the resources of the Imperial Bank of India, should, in my opinion, be utilised for the expansion of banking facilities within the country and it is not desirable that part of this should be diverted towards the business of financing foreign trade especially when its existing resources are most likely to be considerably reduced on account of the withdrawal of deposits by Governments, public bodies and Clearing Houses.

(2) The shares of the Imperial Bank are held, to the extent of more than half by non-Indians, as it is shown in the supplementary answers by Mr. MacDonald. Thus even if the Bank agrees to the condition suggested by the majority as to the 75 per cent. of the Directors on the Local Boards and a majority of those on the Central Board being Indian, there would still remain the objection that the major portion of the profits would pass into the hands of non-Indians. I do not see now the majority can reconcile their " definite conclusion ", " that it is not desirable that India should rely for all time on the facilities afforded by non-Indian institutions for the financing of her foreign trade " (para. 481) with the proposal of making the Imperial Bank, having a majority of non-Indian shareholders, the official Indian Exchange Bank.

(3) The responsible positions in the Imperial Bank of India are filled by Europeans and even if the majority's re-

commendation is adopted regarding stopping of further recruitment of non-Indians, I think it will be a long time before Indians come to occupy such responsible positions, particularly in the Presidency and other port towns, where the exchange business is handled. The attitude of the bank during all this time may be no more sympathetic than that of the foreign exchange banks.

(4) If the Imperial Bank should be given the sole agency of Government business, as proposed by the majority and endowed with the status and special facilities proposed for the official Indian Exchange Bank, it will be impossible for any Indian bank to compete with it to any extent. It might even be reasonable to fear that the banking business in India may become the monopoly of the Imperial Bank.

(5) I am not quite sure whether the Imperial Bank will agree to enter the exchange field under the conditions proposed by the majority, especially because it would involve it in effective competition with the foreign banks. The whole scheme therefore might prove illusory.

43. For these reasons I do not think that we would be justified in wasting any time in negotiating with the Imperial Bank. The Indian Exchange Bank should be started as soon as possible and for several reasons it will be better to start it immediately after the establishment of the Reserve Bank. In the first place, when the Reserve Bank is started, the Indian Banks will feel more confident about investing some part of their resources in the shares of the Indian Exchange Bank. Secondly, the Bank's operations would require the use of the suggested facilities from the Reserve Bank. Thirdly, the Bank's status in foreign countries will be greater, if it is known that it is working in co-operation with the Reserve Bank and is its official agent.

43A. I have explained why I do not agree with the majority recommendation to make the Imperial Bank the official Indian Exchange Bank. Apart from this aspect of the problem, there is the more fundamental one as to whether the Bank, as at present managed, can be allowed to continue to enjoy the privileges and status of sole and even Chief Agent of the Government or of the Reserve Bank, with or without a charter. In view of the importance of the question from the national point of view, I append, as Annexure B, a note on this subject.

44. So far as the scheme of the Bank is concerned, I am unable to agree with the one proposed by the majority or with that of a purely state exchange bank proposed by others. The latter idea does not appeal to me, as I am anxious to make it possible for the Indian Joint Stock Banks, which do not at present take any part in the business of financing foreign trade, to enter the field. Their aspirations to deal in foreign exchange must be recognised and they should be given a chance to undertake the business of financing

India's foreign trade. Yet it can hardly be denied that with their present resources, any attempt on their part to do this business in the near future, will not only jeopardise their inland business but will also introduce an element of unhealthy competition among themselves in a field in which they have at present no experience. The sporadic expansion of their activities involving waste of capital and misdirection and frittering away of national economic energy can, however, be avoided if instead of entering the exchange field unaided and isolated they combine to create a new bank, on which would be conferred some special privileges both by the Government and Reserve Bank as proposed by the majority in paras. 486-487 and which would further be able to utilise for its business the services of a specialised expert staff not easily available to any single banking institution.

45. Much of the progress of the British and non-British exchange banks is due to their close co-operation with mercantile houses of their own nationality and the success of the Indian Exchange Bank will be ensured by similar co-operation with the Indian mercantile houses and individual merchants. This aspect of the matter cannot be too strongly emphasised and it is my firm conviction that unless Indian merchants and traders make genuine efforts to strengthen the hands of the Bank, the progress of the Bank cannot be as healthy and rapid as we would wish. The Indian Exchange Bank will thus be both an opportunity and a test. It is for this reason that I recommend that shares should be kept open for subscription by the Indian commercial community.

46. I have prepared a scheme for the Indian Exchange Bank based on these principles and it is appended to this note. (Annexure A.)

47. The meagre participation of Indians in our foreign trade make me ponder over the part played by Governments in the promotion of foreign trade. In other countries Governments take a very active part in providing facilities to merchants engaged in foreign trade. These facilities may be in the form of services of Trade Commissioners and Consular Officers or may be financial aid through bounties and exemptions. They may also assume the form of cheaper credit for foreign trade than for domestic trade.

48. The most important of these are, however, the various Export Credit Schemes. In England, for instance, though private organizations, such as the British Trade Indemnity Company have been working for a long time and performing useful service in protecting exporters and bankers against possible loss due to the failure of foreign importers in meeting their liabilities, the British Government have nevertheless considered it necessary to come forward and initiate a number of Export Credit Schemes themselves. Their main object in this respect has been to help exporters in financing their shipments to those countries bills on which are not considered safe by the banks, and to enable the former to accept orders from importers in these countries. After trying two or three schemes, the Government adopted in November 1928 the new con-

tract Form B by which through agreement between the banks and the Export Credits Guarantee Department, a scheme of Government guarantee was inaugurated insuring the bank against risks of failures of the foreign importer. The total amount of guarantee approved under this scheme in December 1928 was £ 4,532,000.

49. In Germany again, though there are two private companies providing export credit insurance, the participation of the Government also deserves special mention. For, besides helping these companies with funds, they also re-insure the whole of what is called catastrophic risk and a portion of the normal export credit risk.

50. In France, the Government started the French National Bank for Foreign Trade for enabling exporters to obtain advances against their shipments by drawing bills on the bank to be discounted in the open market. This bank has a special annual subsidy and a loan without interest from the Government so that it might stimulate the export trade of the country.

51. In Japan special schemes have always been in operation to stimulate exports and this has been managed through the special credit facilities enjoyed by the Japanese Exchange Banks with the Bank of Japan in connection with their purchases of export bills. This has resulted in practical exclusion of foreign banks from export trade though imports into Japan are mostly handled by the foreign banks.

52. A scheme of stimulating Indian participation in our foreign trade and modelled on the lines of the British and French schemes cannot but be a great success. The Government should create an Export Credits Board which should guarantee the bills of Indian exporters after taking suitable security. These bills would then be eagerly sought after by the exchange banks instead of being taken for collection as now. In this way, the funds of the Indian exporter would come back to him as soon as his export is made, instead of his having to wait about five months. There should then result a considerable increase in Indian participation in foreign trade which is so urgently and essentially necessary.

53. I cannot agree with the majority regarding the feasibility or advisability of the " joint " banks. These joint banks are contemplated in two forms. In the first form, equal amounts would be subscribed by India in rupees and a particular foreign country in its own currency and the control and establishment would be under joint supervision and the division of profits equal. In the second form there would be an interchange of shares between Indian and foreign banks and each party acquiring an equal interest in the other, and the two institutions would work together as one concern for the interests of both.

54. With regard to the first suggestion it must be remembered that the foreign countries have their own banks in India and unless some form of compulsion is brought in they would not agree to the formation of the new companies which would not bring any additional advantage to them and in fact would practically mean their

exclusion from India. Moreover such a bank will require a good proportion of rupee capital if it is to command any confidence with the public and at least two crores will be required from Indians for each such bank. For only five such banks we will require at least ten crores of rupees and it is extremely improbable that such an amount will come forward for the proposed scheme.

55. With regard to the second suggestion there are even greater difficulties. When it is remembered that any one of the foreign banks could buy up the Indian bank, the scheme will be easily admitted to be impracticable. Taking the instance of even the biggest Indian bank, *viz.*, the Imperial Bank, its share capital is only Rs. 5·62 crores, while that of the Deutsche Bank Und Discontogesselschaft is about 20 crores and of the National Provincial Bank 12 crores. An interchange of capital in such circumstances will result in an unduly high foreign holding in the Imperial Bank without any proportionate compensation. Or alternatively, the Imperial Bank will have to invest a far greater amount in the foreign bank than it can afford, if it is to acquire an equal interest in it. It need not be pointed out that the proposition is far more impracticable in the case of other Indian banks. It seems to be very unwise, in our present circumstances, to lose our control over the few purely Indian banks by adopting such a proposal.

56. Further, if ten crores of capital can be raised as required by the first scheme, it is a sounder proposition to use the money to create an Indian Exchange Bank. The foreign domination resulting from the second scheme can be avoided only by increasing the capital of existing banks, which would have the harmful effect of over-capitalisation and much lower profits. Moreover, this additional capital could, as in the other case, be more profitably employed in starting an Indian Exchange Bank.

NALINI RANJAN SARKER.

ANNEXURE A.

Scheme for an Indian Exchange Bank.

(*Vide* para. 46 on page 568.)

Capital.—The initial capital of the proposed Indian Exchange Bank will depend on the volume of business it will handle. Assuming the Indian share of foreign trade at 15 per cent. there will be about 40 crores of exports and 40 crores of imports to be handled. It has been estimated by a writer in the *Indian Finance* (23rd November 1929) that the amount which all the Indian branches of the Exchange Banks are required to provide out of their own resources in order to finance the total export business is about 65 crores and the foreign offices supply funds to the extent of 15 crores, making a total of 80 crores. For handling 15 per cent. of this business and for making advances in port towns to exporters and importers, the bank will require 15 crores of resources. The requisite share capital may therefore be put down at three crores. This amount need not be called up all at once but may be subscribed in two or three years. The capital of the bank may be increased as and when required, particularly when the establishment of more foreign branches is contemplated. The subscription to the shares should, in the first instance, be thrown open to the joint-stock banks and the general public and, if not fully subscribed within a prescribed time, and any portion unallotted should be taken up by the Government, who may dispose of them later on to the public. It is necessary to provide that no non-national banks or individuals will be allowed to take up shares of the bank and this restriction will naturally apply to any transfers of shares also.

It may be necessary that the Government should guarantee a minimum dividend or say 5 per cent. for the first ten years. The guarantee of a minimum dividend is required to facilitate the participation of the banks in the share capital of the Exchange Bank. It would enable the subscribing banks to earn the normal return on their respective holdings of shares and so maintain their own balance-sheet position. I have the authority of an experienced and reputable exchange banker to the effect that under a strictly conservative management, the Government would not stand to lose on the whole by this guarantee. If, however, the Government have to make any payments on account of this guarantee, provision should be made to repay these amounts out of future profits above the guaranteed rate.

Provision may also be made for the Government to receive a share in the profits above a certain rate of dividend so long as they continue their guarantee or other financial assistance.

Clientele.—At first the bank may have to rely mostly on export business of clients as the selling of the export bills is usually the only transaction that the exporter is free to conduct as he likes. Import bills are presented through the agent banks in India of the banks which originally paid for them in the foreign country and until Indian importers are able to insist that the bills shall be sent to and be presented by the Indian Exchange Bank, this business in sufficient volume will not be available. When the bank opens a London or other foreign branch, during the first few years it may have to count chiefly on the handful of Indians in that place, but the main advantage of these branches would be to buy import bills on India which would considerably increase the margin of profit. Hence, even if the branches themselves do not pay for their expenses, it may be found that they contribute indirectly to the profits of the institution and in increasing the clientele in India.

With the increased facilities that Indians will receive from the bank and the advantage of its helpful advice, Indian participation in foreign trade is bound to grow and this will increase its clientele both as regards number and volume of business.

Functions.—The Indian Exchange Bank will have branches only in the port towns in India and will finance the operations of exporting and importing firms in these ports but it will not compete in inland business. If it requires representation in the interior, it will utilize the services of local institutions in the same manner as is proposed in the case of the other exchange banks.

In order to avoid competition with the Indian banks in the matter of attracting deposits, it should be provided that the bank will not accept deposits except from its own clients engaged in foreign trade.

Resources.—It has been pointed out that the total resources required for the bank will be 15 crores. Three crores will be share capital and about two crores of deposits may be expected. The balance of about ten crores will have to be supplied in a special way until the bank is able to establish itself properly. The Reserve Bank should therefore be authorized to lend, at a concessional rate, up to ten crores to the Indian Exchange Bank. The whole of this amount will not be required in the beginning, but the limit should be established from the start. As the bank's business increases, it will be increasing its own resources by way of deposits but this special loan may be called for during a considerable period.

Agency business in London.—The Reserve Bank will naturally have to arrange for the service of the Public Debt and for payments on account of the Secretary of State. Instead of opening a London Branch for this purpose it can help the Indian Exchange Bank to maintain its London Office without loss by making it its agent and paying it a service charge. This privilege is enjoyed by semi-national banks everywhere. As instances may be quoted the Commonwealth Bank of Australia, the Yokohama Specie Bank and the Bank of Montreal. If the London branch is unable to meet its expenses, the Government should pay a bounty during the first five years to make up the deficiency. Such bounties have been given in France for the National Bank for foreign trade and in England to the Agricultural Mortgage Corporation.

The Government may in this respect specify certain conditions to be satisfied by the bank.

London resources.—The Bank will have to keep a good portion of its own funds, between two and five crores, in London either in sterling securities or with the banks. If the Reserve Bank will lend some of its floating London balances instead of investing in sterling bills, this will enable the bank to do without resort to the London market.

Remittance business of the Government.—The Government's remittance business will be carried on through the Reserve Bank which will judge of the time and manner of such remittances. If it decides to adopt the system of tenders, the Indian Exchange Bank should receive preference in allotment, provided it can be done without loss to the taxpayer. If that bank and other banks have tendered at the same rate, the Indian Exchange Bank should, subject to the discretion of the Reserve Bank, receive full allotment and the other banks should receive *pro rata* distributions. Thus the banks will be furnished with a dependable demand for its sterling balances. If the remittance is arranged for by negotiation, the Reserve Bank having decided on the rate at which it will buy sterling should buy from the Indian Exchange Bank the amount it is prepared to sell at that rate and buy the balance only from the other banks.

It is not unlikely that the foreign banks may combine to defeat the scheme of the bank and for this purpose may quote uneconomic rates so as to prevent the Indian bank receiving any allotment. For this reason the Reserve Bank should be authorzied in such special cases to buy from the Indian Bank at such rates as it considers are justified by market conditions, but it may penalize the banks which tendered the uneconomic rates by allotting the balance to them.

In view of these privileges, the Indian Exchange Bank should undertake to place at the disposal of the Reserve Bank any surplus foreign resources

which it may have at any time and which the Reserve Bank may require for the purpose of strengthening its international position. In such a case the Indian Exchange Bank will be entitled to receive payment for the same at a rate which to take the case of sterling may be better by the equivalent of 1/32d. than the average rate at which the Reserve Bank's purchase of foreign currencies were made in the preceding week.

Other foreign branches.—The opening of other foreign branches by the bank will depend on the business it has at those centres. At first it will, of course, establish connections through agents and correspondents, but later on it may find it useful to have branches in New York, Berlin, etc. As already stated, these branches may not be paying in the absolute sense, but their value would lie in increasing business, better profits in India, and enhanced international status.

Access to the London Market.—The Bank will have its own London resources as stated above. But as regards access to the London Market, it will be no worse off than other non-British banks handling our foreign trade. As regards export bills on London, if the acceptor is a British subject, the Indian bank can discount them at the same rate as other banks as the Discount Houses can put their own signatures as the second one. If accepted by non-Britishers, the Indian bank will have to pay a higher discount rate or hold them in portfolio like other banks. As regards House Paper, British Houses will not approach it and until Indian business houses have London offices, this problem will not arise.

Management.—The Board of Directors of the Bank will be appointed in the same manner as in the case of ordinary joint stock banks. But in view of their participation in the share capital of the Bank as well as for the proposed guarantee on shares, the Government should have the right to nominate at least two directors to keep watch over and safeguard their interests. For the same purpose the appointment of the Chief Executive Officers of the Bank as well as his Deputy should be subject to the confirmation of the Government. Owing to the facilities proposed to be given to the Exchange Bank by the Reserve Bank of India, the latter should also have the right to keep itself apprised of the state of affairs of the Bank and call for such information as it may consider necessary.

Distribution of profits.—Owing to the financial assistance rendered by the Government to the Bank, which will be essentially a commercial bank owned by shareholders, the profits earned by the bank in excess of 8 per cent. will be apportioned between the Government and the shareholders on the basis of such proportions as may be approved by the former.

NALINI RANJAN SARKER.

ANNEXURE B.

Imperial Bank of India.

(*Vide* para. 43-A on page 567.)

The Imperial Bank of India has come to occupy a very important place in the banking structure of the country, through its long association with the Government for about a century. It has now total deposits of nearly eighty crores which is just over one-third of the total deposits of all banks in India. It enjoys a prestige and status which it has consolidated during all these years, and which has considerably helped it in its competition with Indian joint stock banks.

2. It now enjoys most of the privileges and is entrusted with some of the responsibilities of a Central Bank, and indeed it seemed possible at one time that it might become a full-fledged Central Bank. But now that a separate Reserve Bank is going to be established in the near future, it would be useful to discuss the position of the Imperial Bank, pending the creation of the Reserve Bank and after. For, as the latter will have only a limited number of branches. it will have to transact its Government business at other centres through agents.

3. The majority have suggested in para. 529 that though the Reserve Bank will have full discretion in choosing its agents, it is likely of its own accord to choose the Imperial Bank as its chief if not the sole agent on account of its having numerous branches all over the country. I would point out that the number of branches will not be the only or even principal deciding factor, but the Reserve Bank should be guided in its choice by the advantages to the public of its arrangements, by the requirements of a national banking policy and by the suitability of the terms and conditions under which the agency can be arranged. Consequently I do not see why the majority should fetter the choice of the Reserve Bank by thus forestalling it.

4. As regards the advisability of such a choice I am unable to agree to the granting of any special privilege and status to the Imperial Bank of India so long as it maintains its existing characteristics both in respect of its share participation as well as its working policy. The majority proposals envisage a position for the Imperial Bank which is only bestowed on truly national banks in other countries. I am at a loss to understand how the Imperial Bank could legitimately be held to correspond to a national bank while it lacks the element of national control in regard both to its shareholding and to its management.

5. It is no doubt true that the Imperial Bank occupies a strong position in the country. It has nearly 170 branches, but it is more to the point to realise that at present the majority of its shares are held by non-Indians (284 lakhs being held by non-Indians as against 278 lakhs held by Indians). It would, to my mind, be an anomaly to regard such an institution as national, so long as this non-national predominance is allowed to prevail, and I cannot see how effective national control can be obtained unless steps are taken to establish and maintain a substantial majority of shares in the hands of nationals. Otherwise, the position of the Imperial Bank would not be different in this respect from that of foreign banks in India, who have acquired considerable status in the country. When, therefore, the majority propose to allow the Imperial Bank to develop further in its entrenched position it becomes imperative to lay down some specific conditions so as to establish it on the footing of a true national institution.

6. Apart from the question of shareholding, there are other considerations, which require to be taken into account. It is no doubt true that with the majority of shares in Indian hands, the policy of the bank would tend to be nationalistic, but it is necessary also that the staff should be increasingly Indian for otherwise it would be difficult for any national

policy adopted by the shareholders to be implemented with any sincerity or enthusiasm. I maintain that the question of *personnel* is second in importance only to the question of shareholding, for, in any case, a predominant element of non-Indians in the higher *personnel* tends to work to the advantage of non-Indians and disadvantage of Indians. Non-Indians are likely to be given preference, in many indirect and subtle ways, over Indians. The question of staff is, therefore, of such importance that it cannot be left as a matter of internal concern to the bank, and at the entire discretion of the directorate alone if the Bank is to enjoy any special privileges. No doubt a majority of Indian shareholders would accelerate the process of Indianisation, but until and unless the majority is established, the question has a wider national significance demanding Government intervention to ensure that a policy of effective Indianisation is carried on as rapidly as is compatible with efficiency. The majority are apparently satisfied with the Indianisation policy of the Bank as explained by Mr. MacDonald and do not consider that the privileges of free Government balances and Treasury work justify the enforcement of "further Indianisation" particularly as in connection with the former work the Bank is incurring large expenditure. There are three points which I would bring out in this connection:—

The first is that where the Bank employs special staff for the Treasury work, the Government could well insist that they shall be composed almost wholly of Indians. Secondly I am not convinced that the Bank spends as much on this work as it gets out of it. With a free average balance of ten crores, I think the work involved, considering its total expenses, would be more than the profits derived by lending the funds. Thirdly I am not satisfied with the Indianisation policy of the Bank. Accordingly to the figures furnished to us, ten years of working of the scheme have not produced the desirable result. There are now only 43 Indian staff officers against 80 Europeans and I understand that the number of Indians is not more now than it was in 1925. Moreover there are as many as 197 Indian probationers, who have completed their training awaiting promotion to the higher grade. During the year 1925 the Bank appointed 32 Europeans to the higher grade and only 14 Indians. Since then 23 Europeans have been appointed as against 17 Indians. I am led to believe therefore that the policy of Indianisation will be effective only if further non-Indian recruitment is stopped from now onwards particularly as even then, it will take many years before an Indian would occupy a responsible administrative post in the bank. To this condition the majority are also agreeable but only in case the Imperial Bank is made the official Indian Exchange Bank. I do not see why the Indianisation policy should be dependent on this factor. The privileges at present enjoyed by the bank are just as valuable as those it will have as the Indian Exchange Bank and if the restriction is justified in the latter case, it can as well be imposed in the former.

7. Turning then from the internal aspect to the outer aspect of the Bank's policy, the charge of partiality towards non-Indians is substantiated in many ways, and undoubtedly is due as much to the predominance of the non-Indian element in the staff as to the composition of its directorate. Complaints have been made by many witnesses that the European *clientele* of the bank get a more favourable treatment at its hands than the Indian *clientele* and the following items taken from the statement submitted by Mr. MacDonald regarding the deposits and the advances and the loan policy of the bank, support the contention:—

Deposits.	Lakhs.	*Advances.*	Lakhs.
Non-Indians—			
Current Accounts . .	5,64	Non-Indians	11,70
Fixed deposits . . .	2,64		
TOTAL .	8,28		

Indians—			
Current Accounts . .	17,32	Indians	30,38
Fixed deposits . . .	21,49		
TOTAL .	38,81		

Thus it will be seen that while non-Indians have been getting more advances than their deposits, advances to Indians are far short of their own deposits. The privileges of free Government balances cannot justifiably be granted to a Bank whose attitude towards the clients, Indian and European, is shown to be so strongly contrasted. In my opinion, the situation demands the making of certain provisions whereby it should be possible to withdraw the privileges whenever the Reserve Bank has been satisfied that the Imperial Bank pursues a policy of discrimination against Indian clients.

8. In regard to the Imperial Bank's treatment of Indian insurance companies, it was stated by the Managing Governor that they had adopted a plan of freely accepting from their clients the policies of certain approved Indian companies. But regarding its own insurance, which would be far more than its clients' business, he said that it insured only with foreign companies with whom it had a long connection. Asked whether he would not like to consider the desirability of distributing some of this business to Indian companies, he put forward the preposterous plea that it would be inadvisable to disturb the existing arrangements. This is illustrative of the attitude of the officials of the Bank and their attitude to Indian industries and institutions. I think it is necessary that a Bank enjoying special privileges from the Government should as a matter of policy prefer Indian institutions to foreign ones.

9. Like some other institution under Government control the Imperial Bank is a member of the European Chambers of Commerce and has not cared, so far as I am aware, to seek membership of any Indian Chamber. I consider it very undesirable that a bank so intimately associated with the Government should identify itself so closely with foreign interests. The undesirable result of such close association was clearly perceived from the fact that the evidence of the Bank's representative before the Committee followed rather too closely that of the European Chambers of Commerce and the Exchange Banks. Indeed one might very well expect an attitude of close co-operation with Indian interests in a Bank seeking special status.

10. In view of the facts mentioned above, I think it is not desirable to grant the Imperial Bank a charter under existing conditions. I would, however, be prepared to support it if some conditions were imposed on the Bank in return for the bestowal of privileges. In that case, the charter should allow an opportunity of Indianising the institution, and I give below some of the more important conditions that should be imposed on a quasi-national bank of the kind contemplated in the Imperial Bank of the future:—

(1) It shall have a 60 per cent. majority of Indians on the Central Board and 75 per cent. on the Local Boards, nominations to be made by the Government to make up any deficiency in the shareholders' election.

(2) The Imperial Bank shall not hereafter recruit any non-Indian except with the special sanction of the Finance Member.

(3) It shall not transact business with foreign insurance companies, nor act as agents for them, when suitable Indian insurance companies are available for the purpose.

(4) There will be no transfer of shares to non-Indians until their holdings become less than 33 per cent. and then only to such extent that subsequent transfer will not increase the non-Indian holding above this proportion.

(5) That it shall not compete with Indian joint stock banks by introducing an uneconomic rate of interest or by opening new branches in centres already served by them.

(6) It shall not identify itself with any particular section of foreign or Indian businessmen.

11. Even if no charter is granted I must emphasise that these stipulations are necessary if the Imperial Bank is given the sole or even chief agency of the Reserve Bank for its Government work. If, however, the Reserve Bank should not choose the Imperial Bank as its sole or even chief agent, the latter must be content to occupy a position like that of other joint stock banks in India and will have to abide by the provisions of the banking law as regards such matters as shares and management. The Reserve Bank may also, in pursuit of a national banking policy, choose other Indian banks as its agents even in places where the Imperial Bank has branches. It will then find a vast amount of difference between its present status and its future one.

12. There is one other important aspect of the working of the Imperial Bank which from the point of view of the Indian joint stock banks is of great significance, namely the Imperial Bank's competition with them. It is contended that the Bank attracts deposits at a cheaper rate on account of the prestige of Government association and lends the money cheaply. This is claimed to be an advantage to the public. No doubt it would be so if the bank were actuated by this motive alone. It might be argued on the other hand that this has jeopardised the interests of Indian banks, entailing loss of business to them, and also confining them to comparatively more risky business. The contention of cheaper rates is belied by the fact that in places where there are no branches of other banks, or where other banks have been ousted, the Imperial Bank has generally imposed high rates. When his attention was called to such facts the Managing Governor defended himself by saying that the rate in certain localities might be higher than in others as the public interest was not the Bank's sole motive in fixing the rates for lending or depositing and that it had its profits to look after. I am of opinion that this unequal competition is unhealthy and undesirable, particularly when it is remembered that out of the 100 branches opened under the Act, no less than 50 were opened at places where other banks were already established.

13. I am, therefore, of opinion that the Reserve Bank should give due consideration to this aspect when it exercises its discretion in permitting the opening of new branches by the Imperial Bank. I would also suggest to the latter that it should seriously consider an attitude of non-competition with Indian banks. It may go one step further and decide to close those of its branches which are not working at a profit, provided the public in these centres have other Indian banks to whom they could resort.

14. In the interim period, it will be well for the Bank to consider seriously the unwisdom of pursuing the lines of policy which I have referred to, and to which Indian opinion could justly point as reasons for discontinuing the existing Government patronage. If it will adopt from now on a new outlook as suggested by the conditions proposed by me for the charter, it would be acting in its own true interests. To the extent to which it changes its policy on these fundamental matters it may reasonably expect the support of India public opinion which would otherwise be reluctantly forced to disfavour the continuance of the privileges, which have fostered the growth of the premier Indian Bank.

Conclusion.

The comprehensive character of the development of Indian banking envisaged by us, comprising schemes of rural, industrial, commercial and foreign trade finance, easily tends to show that however desirable or theoritically sound these propositions may be, the translation of the schemes into practical action will depend absolutely on the availability of resources for these projects. This would be the crucial test to demonstrate that our pro-

posals have been prompted by considerations of actualities. I have carefully considered this essential aspect of our enquiry and have come to the conclusion that our recommendations including those contained in my separate minutes do not involve any proposition that might be regarded as either utopian or too ambitious for immediate action. I have constantly borne in mind these practical considerations when according my support to the proposals of the majority as well as in framing my separate report.

2. The adoption of our schemes will call for a considerable augmentation of our resources for the purposes of both short and long term finance. The former will be required in connection with the reorganisation of the credit facilities for agriculture, trade, industry and commerce. This demand will be met to a considerable extent by the increased fluidity of funds secured by the general banking development of the country and the close co-operation of the different agencies in our internal money market. Considerable facilities for the increased requirements of short term accommodation would also be available from the Reserve Bank, which, if started with a margin of gold assets of 10 per cent. as suggested by the Hilton Young Commission, will enable to meet increased trade demands by new issues of currency up to 50 crores under normal conditions. Even on the existing strength of the currency reserves, as shown by Dr. Trip, it will be possible to issue additional currency to the extent of Rs. 25 crores. (*Vide* Dr. Trip's Note on Money Market in India.)

3. Long term finance will be required for the share capital and debentures of the Industrial Corporations, Land Mortgage Banks and the shares of the Reserve Bank and the Indian Exchange Bank. It will be noted that the demand for these funds would not be made at once to the extent of the full amount that may be needed to conduct their operations. The Industrial Corporations and Land Mortgage Banks will depend for the bulk of their funds on debentures which will be issued in separate blocks from time to time. The floatations of the debentures will therefore be spread over a few years and in normal years, it should not be difficult to direct the annual savings of the nation and the disorganised individual investors into this form of investment. Even now the requirements of industrial finance and land mortgage credit are being provided, though often on prohibitive terms, by some agencies which will have the funds returned to them as a result of the activities of the proposed institutions. These funds must seek re-investment and the debentures of the Land Mortgage Banks and Industrial Corporations, should become safe and attractive investments particularly when it is known that the Government itself subscribe to them. The fact that the debentures will be made Trustee Securities will make them popular with the Insurance Companies and other Trustees.

4. I do not think, there will be any insurmountable difficulty in mobilising sufficient resources necessary for investment in shares and debentures of the institutions we have proposed, provided attractive schemes are adopted and the national leaders appeal to the nation for mobilising their small savings for these purposes, as the leaders in the belligerent countries did during the last War. With a national economic policy actively pursued by the Government, public confidence and enthusiasm will be created for successfully tapping the scattered resources of the people. A change of policy regarding the capital expenditure programme of the government in consonance with the needs of the schemes of development proposed by us will have to be adopted and pursued with determination. If, however, all the resources necessary for the development of our big national industries be not forthcoming by the methods stated above, the necessary capital may be secured by foreign loans. But sufficient precaution will have to be taken to ensure that such loans do not in any way result in a transfer of control over industries into foreign hands, with which object the state or industrial corporations should borrow the money in foreign markets and make the same available to individual industries.

NALINI RANJAN SARKER.

Minute of Dissent by Six Members of the Committee.

Our colleagues' conclusion is that " speaking from the point of view of trade alone, it may be said that the facilities available at present for financing India's foreign trade, both imports and exports, are sufficient ". We disagree with this premise. According to them the interests of trade alone do not require the immediate establishment of an Indian Exchange Bank, strong enough to compete successfully with foreign banks. We disagree with this solution too.

2. They, however, mention that after a careful review of certain representations made to the Committee, they have come to consider that it is not desirable that India should rely for all time on the facilities afforded by non-Indian institutions for the financing of foreign trade.

3. Reasoning thus our colleagues propose that after the starting of the Reserve Bank for India the Imperial Bank should be " induced " to take an active share in the financing of India's foreign trade. With the terms to be offered to the Imperial Bank and the restrictions to be placed on it in connection with such work, we are not immediately concerned here. Our main difference with our colleagues is on the diagnosis of India's complaint regarding finance of her foreign trade till now. We view the grievance of India in this connection more seriously, and, our proposals for remedying the same are therefore more definite, and of a more urgent nature.

4. We fail to see how from the " point of view of trade alone " it can be said that the facilities available at present for financing India's foreign trade are sufficient. If our colleagues mean that India's foreign trade has not come to a standstill at any time yet for want of financial facilities, one may at least pause to consider before challenging the statement. But every Indian commercial body that has appeared before the Committee has complained that, in the matter of providing financial facilities for import and export trade, the Exchange Banks have, generally speaking, been differentiating between national and non-national exporters and importers. This complaint, so unanimously lodged before the Committee by Indian commercial bodies, can be confirmed by some of us from personal knowledge. Indeed, the history of foreign trade passing into European hands since the establishment of these Banks in India, proves, for all practical purposes, the truth of the case of the Indian commercial community as urged on this Committee.

5. Sinha observes in his " Early European Banking in India ": —" During the latter half of the eighteenth century, when the East India Company was in power without responsibility, most of the foreign trade passed out of the hands of the people. The inland trade was also monopolised by the servants of the Company for a considerable time. As a result of this, the indigenous bankers naturally lost their old pre-eminence . . . . But European Banks could not fill the void created by the decay of the old indi-

genous banks. . . . . Almost the entire foreign trade had passed into the hands of Europeans when European banks came to be established."

6. The foreign trade with Europe in those days passed from the hands of the East India Company to those of non-Indian private merchants and Agency Houses, which latter were chiefly formed of " gentlemen, who had been in the Civil and Military Services, who finding their habits better adapted for commercial pursuits obtained permission to resign their situations and engage in agency and mercantile business ". These European Banks started with the privilege of issuing notes and, being under European management and proprietorship, commanded a prestige which completely put the indigenous banking system and personnel at a most serious disadvantage. In fact, it is said that the political and economic upheaval at the time was at once destructive and constructive. With a history of this nature, the process that started with the commencement of the nineteenth century, has continued unabated, with the result that the volume of foreign trade of India in the hands of Indians to-day, as direct exporters and importers, is not estimated at a higher figure than 15 per cent. of the total trade. This figure, given by the Indian Chamber of Commerce, Calcutta, has been challenged by the European Exchange Banks who have merely given percentage figures for different centres where they have offices in India, leaving the Committee to work out the total percentage for all India. They have not explained how, from percentages of different banks, one could justifiably arrive at a percentage of the total. They have admittedly included in the Indian share, all the business in respect of which bills were drawn on Indian consumers or distributors, though the real importing parties were non-Indians, who controlled, contracted for, and earned commissions or profit in the transaction. They have also admittedly not taken into consideration the large volume of business done by firms like Ralli Brothers, who do not operate through the European Exchange Banks, in the usual course, for finance of their foreign trade.

7. On the other hand, the basis* of the calculation adopted by the Indian Chamber of Commerce, Calcutta, is the actual value of trade as disclosed by official and private publications. We, therefore, prefer, in the absence of any other data which will enable us to arrive at a more accurate estimate, to accept the estimate of the Indian Chamber, which is in harmony with, and receives corroboration from, the general estimates prevalent among the Indian commercial community.

8. We feel that the Committee cannot dismiss lightly this phase of the working of the non-national Exchange Banks in this country. Indeed, we are convinced that as far as the Indian commercial community is concerned, this Committee will have failed in its duty if it does not examine the reasons why the foreign trade of the country is so preponderatingly in the hands of non-nationals and

* See appendix III, Volume of Written Evidence.

suggest suitable and speedy remedies for it. We cannot accept the plea that the Indian has not enterprise enough to compete with the non-national in respect of commerce, either internal or external, on anything approaching fair competitive terms. Before the advent of the British, and, before European Banks drove foreign business from the hands of Indians into those of European traders, Indian commercial firms are known to have successfully carried on foreign business on a large scale in ordinary country crafts and Indian-made wooden ships to various parts of the world.* What is it then that has led to the virtual concentration of the entire foreign trade of India during the last 100 years in the hands of non-Indians? Control of shipping and of banking facilities are the two main causes which can chiefly be mentioned in this connection. We are convinced that, of these two, the concentration of foreign trade finance in the hands of banks controlled and run by non-nationals has played the more important part.

9. The knowledge of banking in India was long anterior to the settlement of the English in India, though the system under which it was carried on, may be regarded as different from that which the Europeans introduced. Writing in 1863, Cooke, in his "Rise, Progress and Present condition of Banking in India", says:—"From time immemorial, the banker has always been an important member of Indian society. Formerly, in all divisions and subdivisions of that society, he had his type and representative, discharging functions of indispensable necessity to the well-being of the community. The Empire had its Banker, the Subah had its Banker, the Zillah had its Banker, and Village had its Banker. Each in his sphere exercised an engrossing influence; each, in addition to his financial, was charged with a large proportion of social and political responsibilities. The traditions of the Hindu, and records of the Mohemmadan periods of our history, endow the higher classes of Bankers with the character and powers of the Ministers of the State. No Royal or Imperial Council was complete in its members without the Banker.

"The character and extent of Indian Banking have been frequently cited in refutation of the unjust calumnies with which the opponents of Indian political reforms have aspersed this nation. There can be no surer proof of the soundness of a people's moral condition, and their habitual regard to truth in the transactions of life, than the prevalence of so much credit as is necessary to the existence of such a system of Banking. The native Bankers themselves are patterns of commercial morality. The dishonouring of a *hundi* is an event of rare occurrence with them. They transact business with each other, and with their constituents, with a total disregard of those forms which English commercial men deem essentially requisite, and, without the aid of which, indeed an English house of business would scarcely be secured. One peculiar feature of native Banks has always struck us as peculiarly gratifying. The business is usually carried on by *gumasthas*, or clerks holding a

* R. M. Martin's Indian Empire, Vol. III, page 559, referred to on page 263, Rau's Present day Banking in India.

confidential position in the firm. They are often poor men, and yet are never called upon to furnish security. Their remuneration is not high, and they have often the entire disposal of the capital of a *Cootee;* yet it rarely happens that a firm loses anything by their dishonesty.

" The fact that Europeans are not the originators of Banking in this country need not strike us with surprise, for, both from internal evidence, which the success of the British arms in the Punjab further extended and opened out, we know that civilization and the arts distinguish the *East* for a very considerable period before the *West* had begun to emerge from ignorance and barbarism."

It is in a country with such history and a people with such latent qualities that the total finance of its foreign trade is with non-nationals. No wonder that its people smart under a sense of material loss and moral humiliation involved in this ousting of her sons from this field of activity which should be theirs.

10. On the various complaints of discrimination lodged before the Committee, it was not possible to sift the instances supplied more closely than we did for the simple reason that the Committee could not summon the Bank complained against, to refute the charge. Efforts were made in some cases by representatives of Exchange Banks to explain away some of those charges, but nothing substantial has been adduced before us which would justify our coming to the conclusion that the charges levelled against the Exchange Banks were without substance.

11. Indian commercial bodies giving evidence before us said that several of their members based their opinions on instances within their personal knowledge. But, for obvious reasons many of them were not prepared to give details of their grievances for formal submission to this Committee. Even those who did volunteer such instances were prompted to do so by a sense of public duty and we have no reason to believe that they either exaggerated their complaints, or concealed the truth.

12. If, therefore, the share of Indians in handling the foreign trade of India is extremely limited, if not nominal, as explained above, and if, as we conclude, one of the main reasons for this is the finance of foreign trade being the monopoly of non-national banks, we cannot agree with our colleagues' solution that the interests of trade alone do not require the immediate establishment of an Indian Exchange Bank strong enough to compete successfully with foreign banks.

13. If by trade our colleagues mean trade as conducted by any body, they may be right. By " the interests of trade alone " we however understand " the interests of the trade of India bringing the best share in it by way of profit, employment, scope for ability to the nationals, and prestige to India ". The Indian Chamber of Commerce, Calcutta, have the following remarks to make in this connection :—

> " As a result of this monopoly Indian firms find it very difficult to compete with European firms who get all the assist-

ance that they require from such banks. What this means to the country will be seen from the following figures:—

> The value of the goods exported and imported by this country annually is about 570 crores of rupees. The share of Indians in this immense trade is less than 15 per cent. Assuming that the merchants engaged in this business make on an average 2 per cent. commission, the profits of European firms amount to 10 crores of rupees annually. Besides the European merchants are able to extend patronage to the extent of several crores of rupees every year by way of brokerage on goods bought and sold, brokerage on exchange, brokerage on insurance, brokerage on freight secured and other incidental operations. Indians had to be content with moving the crops from the field to the ports and sending the imported goods from the ports to the mofussil. Indian merchants are being driven out even from this business. The European export and import houses, with their vast resources, are competing very seriously with Indian firms for this kind of business. Indian firms, in spite of their economical management, find it impossible to withstand them for any length of time as their resources are limited ".

We have therefore no hesitation in saying that Indian trade interests require an immediate stop being put to the monopoly enjoyed by non-national Exchange Banks by the immediate establishment of an Indian Exchange Bank for this purpose.

14. One of the complaints made before us by Indian commercial bodies related to Exchange Banks giving indifferent references about Indian commercial houses to enquirers abroad, as compared with references given about European firms of admittedly lower standing. Without going into the question of the standards adopted to judge the standing of Indian firms, we may say that even a mere likelihood of biassed references being sent out does give an unjustified advantage abroad to competing European firms over Indian commercial houses. The significance of the prejudice created by such reports must be obvious and the handicap therefrom cannot be exaggerated.

15. One of the reasons given by Exchange Banks for their unwillingness to give credit to Indians to the extent that the latter expect, is said to be the reluctance of Indian merchants to disclose their *audited* balance-sheets to Bank Managers. The actual words used by the foreign experts in their report are:—" To exhibit their properly audited balance-sheets and profit and loss account ". The experts perhaps did not realize that what their informants meant about this defect on the part of Indian clients of Exchange Banks was balance-sheets and profit and loss account audited by Auditors " approved " by the Banks. We consider such a demand to be an extraordinary one. We believe that every respectable Indian customer of the Bank would be prepared to furnish the Bank with full and reliable information about his financial position if his connection and dealings with the Bank justified such information

being supplied. The practice of " One firm, one Bank " has still to develop in India, and it may be regarded as a tall order from a Bank, advancing a casual loan, asking its customer to disclose his fullest position to it. We disagree with the statement made by the experts that " secrecy about business affairs seems much more cherished in India than in other countries ". The fact of the matter is that Managers of non-national Banks, not being either willing or able to keep in touch with their Indian customers, as is the case in our Experts friends' countries, rely for reports about the standing and financial position of their Indian customers on either their subordinates or third parties like brokers and other intermediaries, and hence the ultra-conservative estimates of the credits deserved by Indian customers. We cannot help deploring the reflection implied in the impression conveyed to the foreign experts by their informants—and we feel that such an extraordinary demand as that of having balance-sheets audited by " approved auditors " is, by itself, sufficient to make out a case for a change in the monopoly of the finance of India's foreign trade.

16. In paragraph 268 of the Report our colleagues refer to the practice in other countries of banks engaged in the financing of export trade rendering invaluable assistance by supplying their customers with information regarding foreign markets and the prevailing prices. They further say that the existing institutions which finance the foreign trade of India, and which are almost entirely non-Indian, have not taken any steps in this direction. We wonder why our colleagues overlook the effect on our foreign trade of this serious handicap of the agency of the finance of foreign trade, as it exists at present. We will only say that if this defect of the non-Indian Exchange Banks has not been remedied during a period of about 70 years of their existence, it is unreasonable to find fault with the Indian commercial community for their persistent demand for a change in the inevitable angle of vision of the existing Exchange Banks.

17. Our diagnosis, therefore, is (1) that all is not well with the foreign trade of India, particularly with reference to the benefit from it to the nationals, and (2) that the absence of adequate banking facilities for this purpose as supplied by the Exchange Banks has militated against Indian acquiring their due share in this trade, and the loss to the country as a whole by this handicap to the commercial community is enormous. On purely practical and financial grounds alone, without sentiment being allowed to weigh the scales, we are of the opinion that our colleagues have erred in their conclusions in this behalf.

Sinha puts the case in a very succinct way in his book " Early European Banking in India ":—

> " More than 150 years have elapsed since the first European Bank was established in India. Yet the foreign exchange business, which is as safe as it is lucrative, has remained a closely guarded monopoly. It is as true to-day as when Keynes first

wrote* in his "Indian Currency and Finance" in 1913, that it would be exceedingly difficult to start a new Exchange Bank . . . . except under the *ægis* of some important financial house already established in a strong position in India". Even small countries whose foreign trade is much smaller than ours, have a net-work of branches throughout the world for financing their foreign trade. But we have no branch of our own even in London, where the bulk of our trade has to be financed. That entire foreign business of the country remains out of the hands of the children of the soil is an evil, which must be checked not simply out of empty patriotism but for solid financial reasons. It is not for nothing that the Chartered Bank of India, Australia and China was denied a foot-hold in Australia, in spite of the Charter granted to it by the mother country. In India the evil is aggravated, especially in important monetary centres like Calcutta where Exchange Banks do not as a rule co-operate with the Indian Joint Stock Banks."

18. There is one danger of an important character in leaving the non-national Exchange Banks free to pursue their course as they have done hitherto. Their comparatively much larger resources enable them to compete with the Joint Stock Banks in India in a manner that places a handicap on the joint stock banks. An experienced banker complained that, with the financing of foreign trade exclusively in the hands of these Exchange Banks the best medium for bank investments, *viz.*, trade bills, becomes the monopoly of this section of the Banks in India. What is left to the Joint Stock Banks is advances on landed property, or, merely short period advances against raw materials in the mofussil area during the period of the marketing of crops. As a rule, this raw material, as soon as it reaches the port, generally goes to the Exchange Banks for finance where it has not been taken charge of by the foreign exporter in the up-country station itself.

19. †A very significant instance of this is the case of the import bill, which is generally a usance Bill of 2 to 6 months. The currency, in which such Bills are drawn, is either sterling in the case of imports from Europe and America, or yens in the case of Japan. In ordinary course, in any country, with its banking fairly organised, these Bills after being accepted by the drawee would be available for discount in the Discount Market of the importing country. In India it cannot be said that discounting of Bills is either new to the people or is beyond their capacity. In fact, it has been admitted that, with India's imports running into about Rs. 250 crores a year, if the import bills were available for discount and purposes, such a Bill market would be a great help to India's money market.

* Keynes further says:—"Indian Exchange Banking is no business for speculative or enterprising outsiders, and the large profits which it earns are protected by established and not easily assailable advantages" (page 208).

† See Mr. R. G. Saraiya's written statement, Vol. II, pages 372—376.

Owing to the non-Indian currency in which the Bills are drawn, they are rendered useless for a Bill market in India, and have to be locked-up in the port-folios of Banks holding the Bills. This dead-weight on the money market in India is a paying proposition to the Exchange Banks because the rate at which the Indian importer pays interest on the usance Bill, from the date it is drawn until the date of payment of the Bill *plus* the period of remittance of the amount from India to London, is the Bank of England rate with a minimum of 6 per cent. all the year round. How often the Bank of England rate reaches 6 per cent. is well-known—generally speaking it is only during an unforeseen and exceptional period of stringency—and yet the minimum rate of interest on a usance Bill drawn on India is fixed at 6 per cent.

20. On a rough calculation, out of a total import of about 250 crores, Rs. 150 crores may be taken to be the amount on which the Exchange Banks earn interest at 6 per cent. for an average period of 2 to 3 months. As the bills are D/P and have the signature of the drawer and the acceptance of the drawee on them, this first class security for investment to the Exchange Banks may be said to be all jam for them in which the indigenous bank has no look-in. We therefore wonder if our colleagues can be correct when they say that " the interest of trade alone " does not require a change from the present state of affairs.

21. These sterling bills are in form, substance and nature nothing but *hundis*, the circulation of which,—the most perfect portion of the Indian commercial system—was according to Cooke " very great and although millions were invested in them, the loss by bad debts arising out of the dishonour of the instruments at maturity, was a most insignificant per cent. The terms for which the *hundis* were, and still continue to be drawn, vary considerably ". This natural form of investment for Indian Banks has been taken away from them owing to the Exchange Banks continuing to encourage sterling bills for imports. The Exchange Banks in India, relying on their monopoly, have not till now thought of this loss to India's money market. On the contrary, they have put forward the plea that it is for the importer to persuade the exporter abroad to sell to India in the rupee currency. The plea is a little naive. We would venture to ask if this would not have changed years, almost decades ago, if Indian Banks were handling finance for import business?

22. There is a peculiar advantage enjoyed by British import houses who have their offices in London in the matter of the finance of import business. These firms do not finance themselves by drawing on their offices in India, with documents attached—but they enjoy the privilege of drawing on the Exchange Banks which have their head offices in London, the Exchange Banks accepting the bills, and the drawer discounting them in the London market at the cheap current rate of discount prevalent there—which generally is between $2\frac{1}{2}$ and $3\frac{1}{2}$ per cent. The shipping documents for such imports are sent and handed over to the Indian branch of the

London house, and such British firms in India get an advantage of at least 1 per cent. in price over their Indian competitor. When asked whether this sort of facility was made available to any Indian importing house the reply given by the Exchange Banks' representatives was that no Indian house had a London branch. The question remains open whether if there was one, such a facility would have been made available. The position to-day, however, is that even though bills could be discounted in the Indian money market at under 6 per cent. the Indian importer must finance his imports at a rate of interest the minimum of which is 6 per cent.

23. We need only mention the all too pathetic manner in which the opening for Indian intellect, seeking scope for work in the field of banking, is practically blocked owing to the valuable and important field of financing of foreign trade having been till now in the hands of non-national banks. The Committee is unanimously of the opinion that the Indian, *per se*, is not intellectually unfitted for the banking line—and yet, it is admitted that during the last 75 years, none of the Exchange Banks which have thriven so much in India have thought it their duty to the sons of the soil to employ them in the higher posts of their offices in India. Such enforced starvation of the intellect of the country cannot be regarded as a matter of such small loss to the country as can be easily measured.

24. The Committee were apprised of the manner in which Exchange Banks have been resisting the Insurance of goods, both for internal and foreign trade advances, with the Indian Insurance Companies. Although no instance could be mentioned by the Exchange Banks' representatives of any loss incurred by any of these, owing to insurance being placed with Indian Insurance Companies, the latter had to carry on a most persistent agitation for the last several years to assert their right to recognition by the foreign Exchange Banks. Indeed, the struggle is not over yet but the Committee understand that since complaints were made to the Committee, special orders have been issued by the Exchange Banks Association in London, to their offices here, for more discreet treatment of Indian Insurance Companies.

25. One of the most serious defects in the money market of India, owing to the footing which the Exchange Banks have secured, is the splitting up of the market into two. It is admitted by all writers, including Keynes, that the money market is divided into, what the latter calls, " European " money market and " native " money market. He quotes from a letter by Mr. Sleigh, Secretary and Treasurer of the Bank of Bombay, written in 1898, which says that " the shroffs who finance nearly the whole of the internal trade of India, rarely, if ever, discount European paper and never purchase foreign or sterling bills ". This holds good even to-day and the reason for it is that this section of the Indian Banking System never get the opportunity to handle the paper. It has to be borne in mind that the inland trade of India is not less than fifteen times her foreign trade, and as the foreign trade is estimated at 600 crores a year, the inland trade may be taken at 9,000 crores. And yet for

the last 70 years and more the gulf between these two sections of the money market in India has shown no sign of narrowing; if any thing, they continue to keep quite apart and separate and the resulting chaos in the money market of India can be easily imagined. It has indeed been a fertile source for criticism to all writers on the Indian Banking System. Some writers have opined that these two important sections of the money market have remained in mutual ignorance of the doings and methods of each other. This ignorance has been unfortunate for both. It is a question of great practical interest and importance at the present time, whether it is desirable in the industrial and economic life of India that this division should continue. The working of these two markets side by side is a great handicap to the progress of India's economic regeneration. It is therefore necessary that Indian talent and capital should have access to the field of financing of the foreign trade of India without any further delay and thereby a beginning be made in the direction of unifying the Indian money market and putting a stop to the perpetuation of the two divisions of it, which feature threatens to continue for some decades to come if things are left as they are. It may be said that for this purpose there is no bar to Indian enterprise taking to the field of exchange business without State assistance. We have already quoted in paragraph 17 above the opinion of Professor Keynes that owing to the fortified position of the existing Exchange Banks in India it would be difficult to start any Exchange Bank with mere private enterprise. That opinion of Professor Keynes expressed in 1913 can be said to be doubly true to-day and for the next few decades.

26. Such, in brief, is the list of outstanding acts of omission and commission by the foreign Exchange Banks against which the commercial community of the country protest and agitate. Impressed as we are, with the reality of these protests, and the genuineness of the discontent engendered by them, we feel that a solution of this highly involved position must be sought without delay. In our discussions with the foreign experts, we were advised to restrict our solutions to such remedies as other countries in the West may be known to have resorted to. Our difficulty is that none of these friends of ours have been able to name to us any country in the wide world, which either is, or, was placed in the peculiar position in which India finds herself to-day. It is freely admitted that there is no parallel to India's present day position in Banking that we have to solve. We are not in the happy position of having to write on a clean slate as the other countries must have been to a large extent when they evolved their present Banking Institutions and organisations, protected by either legislation or unwritten law of their land. We have to advise the Government how best to make up for the leeway caused by the policy pursued by Great Britain in India during the last 75 years at least. We have been warned that any discrimination in the treatment that we may recommend may be fraught with serious consequences to the welfare of India in other spheres. Our position is that whilst we respect the experience of other countries and propose to benefit by the same we do not think it necessary

for us to take cognisance of any consideration other than the one arising from the terms of reference to us, namely, what do the best interests of India demand from us at this juncture in solving this problem.

27. We cannot help observing that every country, either in the West, has built up its banking according to its conditions and requirements and as far as we are aware no country has taken exception to such policy of any other country. The following extract from the "Foreward" by O. P. Hopkins, Acting Director, Bureau of Foreign and Domestic Commerce, United States of America, to a publication by the U. S. Department of Commerce dealing with "Rights of Foreign Shareholders of European Corporations" is significant in this connection:—

> "There have been in recent times several examples abroad of attempts to restrict the rights of foreign shareholders and prevent the transfer of control of domestic enterprises to foreigners. There has been a great deal of speculation as to whether the corporation laws of the countries concerned permit such measures to be taken. In examining the laws of several European countries it has been found that nearly all of them provide equal rights to foreign shareholders. Spain, Rumania, Sweden, and Norway have definite restrictions on foreign capital in the development of their national resources, but these restrictions have been adopted as protective measures and are not a discrimination against any particular group of foreigners. Most countries permit corporations to make their own provisions regarding shareholders' rights, and the absence of definite laws has resulted in many private measures restricting foreign shareholders."

The peculiar conditions in India regarding foreign trade finance demand the protective measures recommended in this Minute as the minimum first step which the State should take.

28. We know of various countries which still impose substantial handicaps or non-national banks working in their midst. Special taxes in this connection are known to be in vogue in countries such as France, Italy, Spain, Portugal, Netherlands, etc. In countries like Japan and America special restrictions are known to be prevalent. Even for the foremost money market of the world, the Cuneliffe Committee of 1918-19 had made the following unanimous recommendation:—

> "Several of our witnesses have called attention to the conditions under which it is open to foreign Banks to establish themselves in this country. We suggest that this is a matter which should receive the early attention of His Majesty's Government."

29. With such steps devised by more advanced countries, can it be said that the remedies suggested for the solution of the diffi-

culties in India are inspired merely by motives of discrimination? We are anxious to make it perfectly clear that in making the suggestions which are detailed in the paragraphs that follow, we are inspired by the sole motive of setting right the machinery of Banking in India and not by the slightest intent to injure any interest. If, however, one of the indirect results of our suggestions happens to be some discomfort to any interest we need hardly say that it must be regarded as unavoidable and inevitable in the process of making up for some of the evil effects of the policy pursued in the past. Can it be contended that the Exchange Banks have established themselves in India merely because of their superior efficiency? Does history not tell us that in many cases their origin and progress were founded on the most invidious treatment in favour of concerns run by the men of ruling race?

30. We suggest that as a first step in the direction of getting Indians their legitimate share in the finance of foreign trade, the State should start forthwith an Exchange Bank with a capital of three crores of rupees, all to be taken up by the State. This Bank should be allowed to do financing of export and import trade in the same manner as any Exchange Bank. It would receive deposits, and, lend money on produce awaiting export, or, imports awaiting distribution. For direction of such a Bank the State should constitute a Board of 7 persons at the Head Office of the Bank with Boards of about 5 persons at important centres where the Bank should have branches, and nomination to both the Central and Local Boards should be made by the Government. In order to ensure the Bank having a reasonable start, all remittance business of the State should be done through this State Exchange Bank. The Reserve Bank when it comes into being will look after this business of remittance on behalf of the State and the Exchange Bank will act merely as an agent of the Reserve Bank when operating in the open market on behalf of the State. The staff employed by such a Bank should be Indian, except where the Finance Minister of Government may be advised that it is necessary to have the services of a non-national from abroad for a few years in the beginning.

31. There are two special advantages which we wish to emphasize in connection with this suggestion of ours. A Bank, such as this, under State control can be effectively checked in its inroads in the field of activities of Indian Joint Stock Banks. It is very necessary to do this in a scrupulous manner and not to leave scope for any further harassment in the activities of Indian Joint Stock Banks. In actual practice very few hard and fast rules can be laid down demarcating the dividing line between the field reserved for internal trade and that for finance of foreign trade. There are essential differences between exchange banking and loan and deposit banking, which involve a comparatively harder task for the latter. The former is concentrated at the principal ports. The

latter has to be carried on through a number of small offices in the mofussil, entailing a heavy expense in the aggregate. The former has a quick turnover; the latter is frequently troubled with locked up advances and dwindling deposits. A Minister responsible to the Legislature and well-advised by the commercial talent of the highest order, alone, can be trusted to handle properly the difficult and delicate task at the start.

In fact, the encroachment by the Exchange Banks till now on the field of finance for internal commerce has already assumed such proportions that we are definitely of opinion that, in future, no non-Indian bank should be allowed to have any branch up country, *i.e.*, at any place other than the main ports of India, namely, Bombay, Madras, Calcutta, Karachi and Rangoon. We strongly dissent from the recommendations of our colleagues in paragraph 545 under Chapter XIX where they recommend that licenses should be freely given to the already established branches of exchange banks up-country. We recommend that licenses should be granted only to Indian Joint Stock Banks and not to non-Indian Banks. We feel that this is the minimum that can be done without any delay by the Government to relieve the unjustified encroachment by non-Indian banks on the field of finance for internal trade.

32. Another advantage of a State Exchange Bank at present is the provision of a suitable institution to handle the enormous liabilities of the Government of India for remittance abroad to meet the foreign obligations of the country. The average of the liabilities of the Government in this connection has been ranging round about Rs. 40 crores a year. Besides this, a similar amount is estimated to be required for remittance on private account from this country. This exceptionally high figure of annual payment by India abroad necessitates the starting of an institution (for such remittance) which can carry out the work with only one motive, *viz.*, of doing it not for profit so much as for providing cheapest and most efficient method which may help to maintain the credit unimpaired of this country abroad. It is not easy to understand why such an institution was not started by the Government of India years before now. This strikes one all the more when it is remembered that the Exchange Banks in India have not always helped the Government in their work of remittance. Instances are known where these Banks through their London Head Offices brought great pressure to bear on the Government of India through Whitehall for certain privileges and monopolies which they sought.*

33. The East India Company had invariably reserved the foreign exchange business to itself and the annual profits by it have been estimated by an English author at about £250,000. Since the Crown took over the Government of India from the East India

* See Sir Stanley Reed's evidence before the Royal Commission on Currency, 1926, Vol. V, page 246.

Company this policy appears to have been abandoned. But there is no reason why it should not be revived for a few years, now, especially when the other considerations in favour of starting an Exchange Bank as detailed above justify such a step on its own merits.

The above are the main outlines of the scheme that we recommended. The Government would no doubt review the position and examine the desirability of transferring the shares to Indian Joint Stock Banks and the public as soon as it is clear that the requisite conditions are found to exist.

34. It is necessary at this stage to examine the objections to our scheme raised by our colleagues in the report and by Mr. Manu Subedar in his Minority report. Both of them agree that it is necessary to take a definite step to remedy the monopoly of finance of foreign trade created and enjoyed by non-national banks. Their aim is not different from ours as detailed hereinbefore, but the measures recommended by each of them varies in important points from our recommendations. Our colleagues deal with these objections in paragraphs 486-488 of the report; Mr. Subedar refers to our scheme in paragraphs 242 and 245-249 of his Minority report. We propose to review their objections briefly.

35. Our colleagues, too suggest the starting of a Bank for doing Exchange business. But they desire that nothing should be done until a Reserve Bank is started. Thereafter they wish to offer some inducement to the Imperial Bank to start exchange business. Should that experiment of theirs fail, our colleagues recommend the State starting such a Bank. But they wish to offer, in the first instance, the capital of such a Bank to the joint-stock banks and the public, and in the last resort if such capital is not taken up by them they recommend that the Government should provide the remainder of such capital. We fear that before any effective action is taken in the manner recommended by our colleagues, years may pass, and the gravity of the situation as we perceive it, does not admit of such delay.

36. Our colleagues suggest that the Imperial Bank should be used as an Indian Exchange Bank in the first instance presumably because of its readily available organization. They have also stipulated certain conditions which the Imperial Bank must conform to in this matter. We do not think that the proposal made by our colleagues would be satisfactory even if the Imperial Bank agrees to conform to these conditions. More than half the shares of the Imperial Bank are in the hands of non-Indians and so long as this continues, the Imperial Bank cannot be considered to be a predominantly Indian concern. The stipulation made by our colleagues that recruitment of non-Indians on the staff of the Imperial Bank should cease will not have any immediate effect. The preponderance of non-Indians on the present staff of the Im-

perial Bank would make the provision non-effective for some considerable number of years and the Indian public cannot therefore expect from the staff of the Imperial Bank that sympathetic attitude towards Indian business which is so very essential to secure for Indians a larger share in the foreign trade of India. Moreover in view of the fact that complaints have been made against the Imperial Bank that they discriminate against Indians in the facilities offered in the internal trade of the country, we doubt whether it would be wholly satisfactory from the Indian point of view to entrust the foreign exchange business to that institution. We therefore feel that there is no reason to suppose that the attitude of the Imperial Bank towards Indians would be more sympathetic than that of the foreign exchange banks, and that it would not be therefore a satisfactory solution of the problem even if the Imperial Bank is " induced " to take the foreign exchange business with the conditions stipulated by our colleagues. (Sir Purshotamdas Thakurdas, owing to his connection with the Imperial Bank, does not wish to vote in this connection.)

37. The main apprehensions expressed in the Majority and the Minority reports are that the foreign exchange banks may put up a very severe competition against the State Exchange Bank recommended by us and prevent it from carrying on its normal operations. If our colleagues apprehend such a contingency, all that we can say is that it operates with perhaps greater force against the successful working of either the Imperial Bank or the shareholders' bank recommended by them. If the exchange banks, whose capital and reserve funds are known to be enormous, can be suspected of making desperate efforts to retain their grip on the finance of foreign trade of this country, may we ask our colleagues how any private institution that can be started, either now or in the distant future, can be expected to withstand such cut-throat competition. It is because of the danger of this complication that we have thought it necessary to commend our scheme in preference to the recommendations of our colleagues.

38. The other objection mentioned by our colleagues is the one that they have taken from the foreign banking experts, namely the difficulty of the Reserve Bank distinguishing between its remittance operations on behalf of the Government and its operations for currency purposes. We consider this objection to be more technical than real, and feel that in the ordinary course it should not be necessary for the Reserve Bank to often operate in the open market for currency purposes. We fear that our colleagues have been unduly swayed by the recent conditions of the exchange market, and Government operations to support exchange, when they put forward this point against our scheme. They themselves admit that the power of the Reserve Bank to operate in the open market is more of the nature of a safeguard in reserve than one for normal use. If we were making recommendations mainly for the next few

months, this consideration advanced by our colleagues would have had great weight. But under those circumstances, our colleagues will, we hope, admit that their own recommendations are absolutely impracticable.

39. In connection with this question of the relation between the State Exchange Bank and the Reserve Bank, our colleagues refer to the Bank of Japan and the Yokohama Specie Bank, which they admit, furnish an interesting parallel. It is regrettable that they have not thought it necessary to secure accurate information regarding this parallel before criticizing our recommendation. Such information as is available convinces us that there is little difference between the problem in India and the problem that faced Japan during the last fifty years. The arrangement in Japan is not known to have broken down or even suffered in actual practice, either during the War period or during the period following the last earthquake devastation in Japan, which put the Japanese currency system to a severe test. We do not overlook, however, that there is in Japan a national Government to make possible, things which may be ruled out in India owing to unnecessary apprehensions that may entertain Government of India or some of the critics of our scheme.

40. Our colleagues dwell on the difficulty of securing funds for the new State Exchange Bank until the Reserve Bank is formed and begins to operate. They quote from Thakur's book, specially his opinion that a capital of at least Rs. 5 crores fully paid up is necessary for a shareholders' bank to do exchange business. The author explains that this " large capital has been prescribed because a bank of this nature should command not only great confidence in India, but also in the outside world . . . . . The Indian Exchange Bank will take some time before it can hope to get funds and financial assistance in the outside world and in the meantime, assistance on the part of the Bank of Issue is necessary in the national interests ". He however does not deal with the contingency of delay in starting the Reserve Bank—and it strikes us that what can be expected from the Reserve Bank in " national interests " can be equally expected from the Currency Department of the Government of India in that contingency. The State Exchange Bank will take deposits from the public and we see no reason to fear that it will not attract more deposits from the public than any private exchange bank with ever so large a capital with which it may be started. The advances for the purposes of finance of exports and imports are generally speaking, if not invariably, against goods. The amount required for this purpose is indicated in paragraph 463 which has a statement supplied by the exchange banks showing their deposits, advances and investments in India as on 31st December 1929. The advances in India consist of three items : Rs. 26 crores investments in trustee securities, Rs. 10 crores bills of exchange in transit overseas and Rs. 46 crores in loans, cash credits, overdrafts and local bills discounted (excluding bills of

exchange). Mr. Buckley has supplemented these figures with the information that these advances are mainly in connection with export and import trade. It must be conceded by all that until a proper Reserve Bank is started, the management of India's currency can be said to fall very short of the ideal. Should the worst apprehensions of our colleagues and ourselves turn out to be correct and the starting of the Reserve Bank delayed for considerations regarding exchange banks being prevented by legislation better security can even the Currency Department of the Government of India have for advances to the Exchange Bank than the security of goods under lien to that Bank with the usual margin insisted on by all banks even now? We see no risk in such finance either by a Reserve Bank or by the Currency Department of the Government. The only flaw that can prevail ultimately must be the want of will on the part of the authorities to afford any assistance at all.

41. After criticizing our proposals, our colleagues console themselves that they have " purged " their scheme " of inherent drawbacks " of our recommendations and bestowed on the new Bank " a unique and privileged position ". We regret we cannot appreciate their self-satisfaction and feel that their scheme, if it is accepted at all, will prove a doubtful and sluggish remedy for the disease which they seek to cure.

42. Mr. Manu Subedar also apprehends the British Banks " giving a fight " to the State Exchange Bank. We have already dealt with this in a previous paragraph. He, however, advises us that " so long as the authority of Whitehall is supreme, in the counsels of the Government of this country it would be prudent to expect the vetoing of this measure by the Secretary of State ". We do not disagree with him. We only wonder if he does not overlook this sound canon of prudence when he makes his own recommendations regarding exchange banks being prevented by legislation from taking deposits in India or regarding the Reserve Bank having a department to do day-to-day business in exchange. Indeed, we do not think that Mr. Subedar could have committed the blunder of visualizing our recommendations being dealt with by a Government subject to the control of Whitehall and his own by a Government not so controlled. Mr. Subedar must visualize the chances of both the schemes, his own and ours, under a common form of Government only.

43. Mr. Subedar refers to one aspect of our scheme which has not been touched upon by our colleagues. He apprehends that if our recommendation is accepted, Indian joint-stock banks will not be directly and immediately encouraged to take to the field of foreign exchange business. We have never been under a delusion in this respect. Mr. Subedar himself has dealt at such length with the strength of the foreign exchange banks and their capacity and readiness to " give fight " to any new-comer into the exchange

field, that he must realise that the spade-work in this connection can only be done in the shortest period possible by an organization which is suitably equipped to occupy " a unique and privileged position " both in India and abroad.

44. To deal with the circumstances and atmosphere created by the monopoly of the foreign exchange banks, we see no constructive and effective remedy except the full resources and prestige of the State being brought in, not only at the start but for such period as may be necessary to get the foreign banks to realize their correct and legitimate position in this country.

45. Some witnesses who appeared before us have pressed for measures preventing non-national banks from borrowing in this country unless they have their head offices in India and are converted into Indian registered companies. We do not consider recourse to such measures necessary at the present stage. We appreciate the *bonâ fides* of this suggestion and the patriotic motives that lie behind it. We ourselves neither exclude nor deny the necessity for such legislative action at a later stage should other remedies fail. But we believe that what we have recommended herein will give, with least delay, Indian trade and banking scope for the activity which they can cope with. In fact, we expect that the non-Indian exchange banks, perceiving the necessity of giving up their monopoly will adjust their own policy and work in a manner that will still enable them to carry on their business in India without prejudice to Indian enterprise.

46. Our colleagues are of opinion that no effort at starting a State Exchange Bank like the one which we recommend, should be made until the Reserve Bank is set up and begins to operate. We disagree with this view. While we realize the necessity of the Reserve Bank for the control of the Indian currency and credit systems, and admit that its creation and functioning on correct lines may help to remove to some extent the handicaps brought on by the preponderance of foreign banks in the field of exchange business, we are decidedly of opinion that there is no imperative necessity for a Reserve Bank to precede the State Exchange Bank, the immediate establishment of which we have already recommended.

47. After setting out some considerations in favour of the Reserve Bank preceding an Indian Exchange Bank, our colleagues state in paragraph 489 that it is their intention that the new Indian Exchange Bank should not be started until after the Reserve Bank has come into existence *and* until after the scheme of participation of the Imperial Bank of India in the financing of foreign trade has been tried and found wanting. Then they proceed to deal with the suggestion that the Reserve Bank may take long to come into being and that the establishment of an Indian Exchange Bank should not be indefinitely postponed on that account for an avoidable delay

in creating the new Bank will strengthen the chain that holds India dependent on the foreign banks. In attempting to dispose of this suggestion of ours they state that they could not " *obviously* subscribe to any suggestion which assumes the contingency that the establishment of the Reserve Bank may be delayed ". This excessive optimism in our colleagues cannot, in our opinion, be justified in the face of the conditions now prevailing. We had it from responsible quarters towards the end of the last year that a proper Reserve Bank for India could not be brought into being in the conditions that prevailed in December 1930, because India had not then enough gold resources. Since then during the last five months the gold resources of India have undergone further serious depletion and according to those very authorities the prospects of a Reserve Bank being set up would be more remote to-day than they were five months ago. The Government of India have been managing the currency during these months in a manner which has been criticized severely in India, and it is difficult for the best informed persons in India either to understand or to infer whither the Government of India are drifting by their policy during this period—a policy which responsible commercial associations and persons have not hesitated to characterize as reckless and almost desperate. Under such conditions and in these circumstances, it is difficult for any one not in the ken of official secrets to know the mind of the Government of India. We consider it imperative that the future Government of India, such as we have envisaged in the penultimate paragraph of Chapter I, should be free from dependence on the existing exchange banks, which have not in the past manifested any desire to function in the best interests and prestige of India in foreign countries. We feel that in the circumstances in which we find ourselves at the date of signing the report, the necessity of a State Exchange Bank is all the greater, both to the commercial community and to the future Government of India responsible to the Indian Legislature and free from dictation from Whitehall a dictation which has been an unfortunate factor for the last 100 years and more. We therefore entirely disagree with our colleagues when they make the starting of an Exchange Bank dependent on the establishment of the Reserve Bank, however long it may be delayed in coming. We do not propose to dwell on the indications that may be gathered from the proceedings of the first Round Table Conference regarding the provision for a Reserve Bank being made, " somehow " in the future constitution of India. We and our colleagues are in agreement that the Reserve Bank should be established as early as possible by an Act of the Indian Legislature. But the considerations averted to by us in regard to the possibility, if not the probability of delay in actually constituting the Reserve Bank, remain unaffected and it is for this reason that we are anxious that our scheme of an Indian Exchange Bank should not be held up till the Reserve Bank is established under the new constitution.

48. It may be asked why we have thought it fit to single out the finance of foreign trade for special recommendations involving the adoption of immediate steps, irrespective of the starting of the Reserve Bank, while we do not make similar recommendations in regard to rural, industrial and commercial finance. In these latter field of Banking there are no powerful vested interests as in that of the finance of foreign trade, which render delay in taking remedial measure equally detrimental to national interests. Moreover, we feel justified in taking for granted that in fields other than that of finance of foreign trade, the Government of India, whatever their constitution may be, will make all feasible efforts to help the economic progress of the country, even in the absence of a Reserve Bank.

49. The final stage of our inquiry has synchronised with the eve of the constitutional reform for India, and to that extent we can be said to be at a real disadvantage in making our recommendations for the future. We have got over the embarrassment of this situation to a certain extent by agreeing amongst ourselves at the very start to envisage a common angle of vision, namely, that the fundamental basis for making our recommendations should be that the administration of the provinces and the Central Government should be in the hands of Ministers fully responsible to the respective legislatures. In fact, this understanding forms the preface to our report. (*Vide* paragraph 16, Chapter I). To the extent of any changes that may take place in this assumption of ours, our recommendations in the main report, as well as in this minute, will necessarily require modifications. But in connection with the Reserve Bank, our position has been further complicated by the fact that, in view of the tentative proposals which emerged at the first Round Table Conference referred to in paragraph 606 of Chapter XXII, the Chairman thought it necessary to give a ruling which prevented us from discussing the details of the constitution of the Reserve Bank. Although we are unable to appreciate the necessity, or, the justification, for ruling out the consideration of the question by the Committee, we respected the ruling. But we cannot help recording that in our opinion this Committee were not only entitled to, but owed it as their duty to discuss the constitution of the Central Bank which, in the Finance Member's words, is " essentially the crown of the whole banking in its widest sense ". We fear that the omission by this Committee, to indicate the constitution and structure of the Reserve Bank after it has examined and reviewed the needs of India in regard to banking in the rural and urban areas, in the field of commerce and industry and in the sphere of internal and foreign trade cannot but be regarded by the public as a conspicuous gap in our picture of the banking system which India needs in the future. If it was apprehended that any political considerations were involved in the process of considering the details of the Reserve Bank all that we can say is, that such considerations might be no more inseparable from this problem than they were from many other problems dealt with in the rest of

the report. The responsibility for this avoidable void in the report is however not ours, and such justification as there may be for it has to come from the Chairman.

PURSHOTAMDAS THAKURDAS.
D. P. KHAITAN.
MUKHTAR SINGH.
V. RAMADAS PANTULU.
R. K. SHANMUKHAM CHETTY.
M. JAMAL MAHOMED.

General observations by L. Harkishen Lal.

Request being made I sign the report, but the following observations are essential to be made:—

1. Weak health, and other demands on my time, disabled me from placing my services more frequently and more effectively at the disposal of the Chairman of the Committee.

2. The Chairman of the Committee conducted the examination of witnesses, that appeared before him for *viva-voce* examination, as a Judge does in a criminal trial when he is assisted by a Jury, or Assessors, by means of a set of prepared questions by himself—thus preventing the witnesses from developing ideas and schemes in collaboration with himself. This, if allowed, might have helped better in the solution of problems placed before the Committee.

3. A certain ' Reserve ', which is the *Sine Qua Non* feature of all official handling of economic problems of India, obviously ran all through the enquiry; and the process of summing up of facts, and fixing up of conclusions for recommendations was also not free from this " Reserve Policy ".

4. The wealth-producing resources of the country are very limited in many directions; and the savings of the people are very small in all directions; and almost the entire field of handling, conducting, and carrying on of the international trade of India is already occupied by foreign shipping, and by foreign banks and by foreign commercial firms at both ends of the stick. These are the matters which should have formed a very considerable part of the enquiry of the Central Committee, but this was not attempted on any adequate scale. This side of economic life of India requires further and immediate investigation and adjustment, as this aspect forms, at the present juncture, a very big bone of contention. The handling of the foreign trade in its various ramifications by the nationals of a country is a source of income, employment and saving; and all the national banking systems of countries, interested in international trade, are enabled to play in it an adequate and just part. In the case of India in this direction, as in others, a serious struggle is ahead, until matters are arranged by mutual arrangement and the principle of give and take. To this aspect of the solution of the problem, very likely in view of the proposed safeguards in the new constitution, a very cursory attention has been paid; and efforts are obvious to have been made, in the body of the report, to avoid direct attack on the problem in the manner above-mentioned. To my mind the present foreign banking influence in the internal and external trade of India should form a very serious matter to be solved by the Round Table Conference and my regret is that having had opportunities to effect a solution, the " Foreign Experts " have burked it and the Committee have shirked it. Let the gods now solve it.

5. The banking of a country, in the life of the modern world, is only a link in the chain of complete financing, which starts from

the production-end, the other end being of spending of money, raised by taxes, and Government borrowings, both locally and abroad. This chain has been built up in several modern countries, and in the old countries of Europe; and we had excellent opportunities of making a serious effort in forging a good and serviceable chain, but the dictum of Sir George Schuster that no entry could be permitted in the precincts of 'stability' and the 'Exchange Ratio'; and another dictum, in this case of the Chairman of the Committee, that certain parts of the proposed Reserve Bank Bill were reserved for gods only to look into; and the position taken up by the experts as guarding and watching sentinels at the gates of the Imperial Bank of India, and the 'Exchange Banks' ruined all chances for the Committee to be of service in this direction. Let gods wake up now.

6. The moneylender does not seem to have had a better luck this time either; he has had continuously bad luck for some time past. He is, in fact, the Parriah of Indian finances, and he must serve the community thanklessly and also be shut out from the streets whereon the high caste and the orthodox walk. Opportunities have been lost in assigning him, in the new chain required to be forged, a proper place and position; as also in shaping this link, in such a way, as to be indistinguishable from other links, excepting in the position it may hold in the chain.

7. The indigenous Banker was also along a favourite of, and he received special attention at the hands of, the Vice-Chairman of the Committee. Having secured his patronage he was looked upon, by the other members of the Committee, as deserving of no serious notice at their hands. This is the greatest disservice that the Committee has done to the indigenous banker; and if I could offer him an advice to preserve his great position as also his great wealth and utility, he should change into a modern being and a modern institution, as the whole world and its institutions are changing.

8. The co-operative movement has received at our hands, as at the hands of the Provincial Committees, its due and well deserved consideration; and no one has been niggardly in helping the movement on; but the movement requires steadying its pace, holding its body erect, and walking without stays. The co-operators are lucky in securing blessings and help from all directions; but the thought of the patriot and the official should not be fixed exclusively in his direction, as there is also a mass of population near about 93 per cent. of the whole, to whom the crumbs of financial favour are not yet thrown; and I am afraid he would be the first to listen to 'Communism' and to 'No Taxes' and to 'No Rents' and I wished all along that his case could have received at our hands somewhat greater and wider attention. The luck of the mass of society does not often change with the appointment of a Committee; nor the view of the official (perched though he may be on the heights of Simla) does extend to the fields of India, as far removed as 100 miles, 200 miles and 1,700 miles and 1,900 miles. I would now humbly suggest the establishment of a permanent Aero-club to

enable its members to look down on these unfortunate people from the airy heights and to photograph life as it actually is. Much material will be thus discovered, I am sure, to enlist human sympathy. Our Committee had some sympathy for these unfortunate 93 per cent.; but had no aeroplanes to play with, and did not combine heroism with their obvious wisdom.

9. The life in India, in the domain of economic sphere, has much changed within towns and villages, but the greatest change is in the life of the cultivator; and in the life of the worker, who served the agriculture and the agriculturist from untold generations. The causes are the influx of ready made goods from all corners of the world excluding India, and a system of cash payments. He is also to be helped financially to find a new or a modified occupation; but he might wait for the formation of the aero-club or any other Committee. Meanwhile he may go under, or give trouble. Let the wise consider.

10. The use of the word ' industry ' is more unwelcome than the use of the word ' Banking ' in this country among certain influential and powerful people; the result being dependence of India on one industry only named agriculture, and the subsidiary business of ' shop service '. The inferential problem arising out of the above observation has also a big financial aspect, and I am afraid the solution offered by the Committee in suggesting the founding of the Provincial State Banks might not prove to afford sufficient help.

11. For some reasons which may not be apparent to some and may be quite clear to others, the Joint Stock Banking in this country, which is of comparatively recent origin, receives always the step-motherly treatment at the hands of the powers that be. Whether the Committee has been enabled by its investigations and study to suggest measures and means to effect amplifications and improvements would be the care of the reader of the report.

12. I had from the very start of my co-operation with the Committee firmly resolved not to work for a *dissenting Minute*, but to help in the solution of very serious problems so far as my resources of experience and knowledge went.

13. I regret that opportunities afforded and availed of have been quite inadequate; and I would have much preferred to drop off unnoticed, but in the event of insistence on my signing the report I have been reluctantly compelled to add a few—very general observations.

HARKISHEN LAL.

Lahore, the 8th June 1931.

Note by Chairman.

Lala Harkishen Lal's " observations " have been shown to me by Secretary just as I am leaving for England. I have therefore no time to deal with the observations at length, and I shall leave it to the public to decide, when the report of the Committee is published, how far the observations are relevant or justified. I need only mention here that I do not understand his reference to the procedure adopted by me for the examination of witnesses which, so far as I can see, has been in accordance with the procedure followed by other Committees and was in fact settled in consultation with my colleagues on the Committee who were present when the examination of witnesses was started at Poona. The proceedings of the examination of the witnesses will indeed show that full opportunity was given to witnesses to develop their ideas and any concrete schemes which they wanted to place before the Committee.

2. Lala Harkishen Lal and six others of my colleagues who have signed a note of dissent have voiced a grievance against my ruling which, according to them, took out of the purview of the Committee certain matters connected with the Reserve Bank for India. Feeling as I did for reasons given in paragraph 606 of the report that these matters were not within the purview of the Committee, it was not possible for me to give any ruling other than that I gave.

B. N. MITRA.

The 12th June 1931.

APPENDIX I.

REPORT OF THE FOREIGN BANKING EXPERTS.

(*Vide* para. 14 of Report.)

COPY OF A LETTER FROM G. C. CASSELS, ESQUIRE, CHAIRMAN, COMMITTEE OF BANKING EXPERTS, TO THE CHAIRMAN, INDIAN CENTRAL BANKING ENQUIRY COMMITTEE, DATED THE 12TH MARCH 1931.

I enclose herewith Report of the Banking Experts as provided for by our terms of reference together with the enclosures mentioned therein. I understand that this report will be submitted together with your own report to the Government of India.

Although the time was short, we are pleased to be able to meet your wishes and have this report in your hands before leaving India. We trust that our joint consultations will result in some lasting benefit to India.

All these matters were discussed with Dr. Jeidels before his departure and he authorised us to include his name as one of the signatories to this report; therefore this report of the Experts is unanimous.

I take this opportunity of acknowledging with sincere thanks the efficient services of Mr. V. K. Aravamudha Ayangar, C.I.E., Mr. R. P. Masani and Mr. K. C. Seth which were always cheerfully rendered.

REPORT.

Proceedings.

According to the Resolution of the 22nd July 1929, we were appointed by the Government of India to have joint discussions with the Central Banking Enquiry Committee and to act as its advisers with the right to submit a separate report of our own, if necessary, to the Central Committee. In this case the Central Committee should submit our report together with its own report to the Government of India.

From the date of our appointment we studied the comprehensive and instructive reports of the Provincial Banking Enquiry Committees and the statements of evidence given before the Central Committee. We landed at Bombay on the 12th of December 1930. From that date till the 26th of January 1931 when we had our first meeting with the Central Committee, we travelled over a part of India in order to amplify our knowledge and to test our provisional impressions by examining the actual conditions. We had also many interviews with leaders in banking and industry.

That we could not start our discussions with the Central Committee before the 26th of January was because of the unexpected delay of the return of the Chairman of that Committee from London, where his attendance was required at the Round Table Conference.

Owing to these circumstances and to the fact that one of our members was compelled to leave India on the 7th of February, the procedure, as originally intended, was altered. Instead of our joint discussions being based on the provisional conclusions of the Central Committee, we placed before that Committee, by way of *aide-memoire*, five memoranda, containing our views on the following subjects :—

Commercial Banking;

Industrial Banking;

Foreign Trade Finance—Exchange Banks;

The Money Market in India (including the Imperial Bank of India and the prospective Reserve Bank);

Banking Regulation.

They are attached (Enclosures I—V) to this report. They formed the basis of our joint discussions, which took place from the 26th of January till the 16th of February. Thereafter the Central

Committee held separate meetings for drawing up their provisional conclusions on the subjects discussed with us.

All matters pertaining to the co-operative movement are dealt with separately. Two of our members who are more especially acquainted with these matters, will, if necessary, submit a report of their own. Their work in India will not be concluded till after the departure of the other three members.

Our joint discussions were resumed on the 4th of March to consider the provisional conclusions mentioned above. As a result of these further deliberations certain alterations, of which we were informed on the 10th of March, were made. The final conclusions, in which these alterations are included, are attached to this report as Enclosures VI—XI.

Scope of separate report.

We have to state that the conclusions which are attached to this report, form the only part of the Central Committee's work on the respective subjects, with which we are concerned. We are, therefore, not responsible for any contents of the Committee's report apart from these conclusions in so far as we agree with them. We are pleased to state that most of them are in conformity with the views expressed by us and the recommendations made in our memoranda. Apart from some slight alterations of detail, to which we acceded during the course of the discussions, we maintain these views and recommendations in our memoranda as they stand.

Certain fundamental differences of opinion could not be reconciled. We have, therefore, been compelled to avail ourselves of the right, granted in our terms of reference, to submit a separate report. We endeavoured to take into account the specific circumstances prevailing in India and to adjust our views accordingly, but we cannot accept recommendations, which are, in our opinion, unsound and contrary to banking principles which ought to be adhered to under all circumstances and in all countries. Our conclusions are based on these principles and we cannot concern ourselves with ambitions or desires of a political or nationalistic character.

As already stated, the differences between the Central Committee and ourselves are few in number. In view of this and of the fact that our memoranda are attached, this report will be short. Apart from a few general observations, it is confined to the points on which we differ from the Central Committee's conclusions.

General observations.

It is outside the purview of our task to enter into a description of the present banking system and its development in India. In so far as such a description was necessary for expressing our views or formulating our proposals, it is given in the memoranda attached to this report. It is necessary to stress our conviction, that in the field covered by this report and taking into consideration the structure and the stage of development of the country, the number of banking agencies and the amount available for the granting of credit are not insufficient. In a country of a preponderatingly agricultural character, where a large majority of the population are illiterate, the banking system cannot be expected to have reached the same level as in highly developed countries of an industrial character. Nevertheless the number of credit agencies, including indigenous bankers, is enormous. The amount of credit, granted by these agencies as a whole, though unknown, must be very great.

Generally speaking, it cannot be gainsaid that whatever deficiencies there may be in the banking position in India, they are much more the result of the fundamental circumstances, which dominate the financial and economic life of India, than of lack of banking facilities. We are of opinion, that a strong and keen competition exists in banking. In so far as no banking possibilities are available, no modern banking facilities can be expected. No bank, working on sound principles, can be expected to extend its activities unless there is a fair prospect of reasonable profits being made in the near future.

This does not alter the fact that at a later period a considerable increase of banking facilities will be needed in accordance with the development of economic and financial life and, therefore, with the growth of banking possibilities. But it cannot be maintained, in our opinion, that more could be expected at the present stage and under present conditions from the commercial banks for the spread of banking facilities over the country.

It is our opinion that the immediate problem in connection with banking is not a question of expansion but of organisation, consolidation and co-ordination. Existing banking agencies in India are marked off into different classes each doing a distinct kind of business without sufficiently close relations. This results in lack of knowledge and confidence within the banking profession, in an insufficiently developed money-market and in undue differences and fluctuations in the rates of interest prevailing in the various parts of the country and charged by the various types of banking agencies. These detrimental consequences are aggravated by the absence of close and intimate relations between borrowers and lenders, between the customers and their banking agencies.

The solution of this main problem depends in the first place upon the constitution of a strong, well-equipped and influential Reserve Bank. The paramount interests for the country involved in the establishment, within the shortest time possible, of such an independent institution, free from political influence, can hardly be over-estimated.

The other recommendations which we have made to solve this problem are explained in our memoranda and have been, together with our proposals regarding the position and task of the Reserve Bank, adopted by the Central Committee.

Differences with the Central Committee.

After these few general observations we shall now examine the differences of opinion between the Central Committee and ourselves. We will deal with these points under their respective headings.

Commercial Banking.

In our general observations we have already stressed our opinion that, taking into account the structure and the stage of development of the country, it cannot be said that the number of banking agencies and the amount available for the granting of credits, are insufficient. No bank, unless compelled by law to do so in return for advantages obtained, can be expected to open branches in places where no profits could be made or even losses would have to be incurred. The Committee mention in conclusion 1 (*a*) that the number of principal towns which possess a bank or a branch or agency of a bank, was only 339 in 1928. If we consider that in 1919 the number was only 185, so that during this comparatively short period of ten years, there has been an increase of 154 or 83 per cent. the figures seem to be not unsatisfactory and considerable extension of banking facilities has been achieved. In so far as the conclusions of the Central Committee could lead to the view that the commercial banks failed to provide the country with banking facilities which could reasonably be expected, we cannot agree with these conclusions. We are of opinion that no criticism in this respect can be made and it is only in accordance with the development of the financial and economic position of the country that a gradually growing number of branches or sub-agencies can be established. The anticipation expressed in the second conclusion, that it will be a long time before India is provided with a network of branches of joint-stock banks, seems, therefore, much more in conformity with the real state of affairs.

Our second remark refers to the absence of touch and the lack of knowledge resulting therefrom between borrowers and lenders in the principal money market centres, mentioned by the Central Committee as one of the reasons of the unimportant place which clean advances against the personal credit of the borrower only, occupy in India. Although the conclusions themselves do not clearly indicate the defects, from which the undeniable absence of touch and lack of knowledge originate, we gather from our discussions and from the recommendations made by the Committee, that it is the banks in the principal money market centres which, in the Committee's opinion, are mainly responsible for, and could, by changing their methods, repair these defects. We cannot share this opinion. Admitting that, as we explained already in our memorandum on Commercial Banking (Enclosure I), these methods are open to improvement, we consider that it is in the first place the duty of the banks' customers to supply their bankers with full information regarding their resources and the position of their affairs and to exhibit their properly audited balance sheets and profit and loss accounts. That a great difference exists between the attitude of the Indian bank customers and those in western countries can hardly be denied. Secrecy about business affairs seems to us much more cherished in India than in our countries. The keen competition which, especially in the principal money market centres, exists between the banks, makes it already improbable that borrowers of a sound financial standing would be refused reasonable credit facilities, if they were prepared to furnish the banks with full and reliable information about their position.

Financial Requirements of Industries.

On two main points we are not in agreement with the conclusions, reached by the Central Committee.

In the first place we do not subscribe to the statement in the last sentence of the 3rd conclusion that industrial concerns in India may reasonably be expected to have their working capital supplied by commercial banks, if adequate security to the satisfaction of the banks is offered.

As we wrote in our memorandum on Industrial Banking (Enclosure II), it has to be made clear that it is not sufficient in itself that an industrial firm should put up its block from its own capital and that, having done so, the firm can appeal to banks for loans and assistance. Not only block but also normal working capital has to be furnished out of the firm's own capital, and before the firm is fit for Industrial Banking or Industrial Finance, it must have been in operation for a sufficient period to prove that it is strong enough. It cannot be sufficiently emphasised that these two conditions are essential, and to attempt a different way

of financing is not only unwarranted for the bank but also unsound and dangerous for the industrial enterprise.

It appeared from our discussions that the expression "adequate security" used by the Central Committee, is meant as sufficient liquid security including the requisite margin. We must, however, maintain our view that the normal working capital as well as the block capital should be put up by private or public subscription. We consider this as the sound arrangement so that the expressions "ideal arrangement" and "minimum working capital" used in this respect in the second resolution, seem too weak to us.

We understand by "normal working capital" the capital which the industrial concern can employ during the whole year on the basis of its present capacity, whilst only the amount in excess of that normal capital needed in the busy season, or in case of permanent extension of capacity, in anticipation of an increase of its own capital, may reasonably be expected from bank credit.

If the whole of the working capital of an industrial concern is borrowed money, part of the loan would become locked up and the concern would never be free from indebtedness to the bank. No commercial bank, which adheres to the sound and common principles that its credits ought to have a fluctuating and not a permanent character, and that its customers ought not to use their credit during the whole of the year, would be likely to consider such an advance as being suitable for its activities. The customer who has no reasonable prospect of being able to repay his debt to the bank would expose himself to a serious danger if the bank should, for any reason, decide to call in its loan.

Our second objection is directed against conclusion No. 11 concerning the supply by Provincial Governments of financial facilities to industrial concerns. Although the conclusion, for obvious reasons, leaves the decision and responsibility with the Provincial Governments, the Committee as a matter of fact advocate a system of extensive Government interference with, and assistance to, industrial business life. No restrictions are made with regard to the cases in which such assistance should be given. It is proposed that Provincial Industrial Corporations should be established and that the capital of these corporations should initially or permanently be supplied by the Government. In any case the Government should take such portion of the share capital of the Corporation as cannot be raised by public subscription. If it is found necessary by Government to offer a guarantee of interest on the debentures, Government may give limited guarantee, *e.g.*, limited to the first issue of debentures, or limited to a certain period of currency of the debenture issue. Moreover, Government may, if necessary, purchase a portion of the debentures until a regular market has been created for these debentures.

We consider these suggestions as thoroughly unsound and we do not doubt that should the Provincial Governments follow the lines of these suggestions, taxpayers would be involved in serious losses. The experience obtained under the State Aid to Industries Acts, now in operation in some of the Provinces, may serve as a deterrent example. This experience is the common one in cases where a system of extensive State aid in economic life has been introduced.

We outlined in our memorandum on "Industrial Banking" (Enclosure II) on what lines and under what restrictions Industrial Corporations with Government assistance could, in our opinion, be started. Their work should be restricted to pioneer enterprise of a non-competitive character, the opening up of mineral resources and large public utilities, principally electrical power schemes. Small industry should be avoided. Financial assistance by Government ought not to exceed the taking up of the share capital.

Referring to our suggestions and considerations in our memorandum, we must most earnestly express a warning against the scheme evolving from these resolutions of the Central Committee.

Financing of Foreign Trade.

It is especially with regard to the wide divergence of opinion that has arisen on this subject between the Central Committee and ourselves, that we refer to the statement on page 4 of this report, that we base our opinion and our advice on sound banking principles. We cannot concern ourselves with ambitions or desires of a political or nationalistic character. It is our opinion that it is such ambitions or desires which underlie the recommendation of the Central Committee that a State Exchange Bank should be established. According to point 1 of the Committee's conclusions it is considered not desirable that the country should be dependent on the facilities afforded by non-Indian institutions for the financing of foreign trade. No arguments for this opinion are given. The only matter-of-fact argument which we can imagine, lies in the fear that the non-Indian institutions could at any time withdraw from the country, thus leaving India deprived of agencies for the financing of its foreign trade. We consider this fear to be without any foundation. It is in our opinion inconceivable that eighteen, generally speaking, strong institutions of high standing with activities and connections all over the world, would, of their own free will, withdraw from a working field, which must be of importance to them. It is as inconceivable as that all the Indian joint stock banks would stop their operations and go into liquidation.

Apart from this argument, we find in point 6 the indirect allegation that the foreign exchange banks could assist the Indian

merchants to a greater degree than they actually do. We dealt with this allegation in our memorandum on Foreign Trade (Enclosure III) and can only state in this respect, that our discussions with the Central Committee have shown no necessity for us to change what we wrote on the subject.

From the point of view of banking principles we do not hesitate to define the recommendation as unfair and thoroughly unsound. It aims at the establishment of a State Exchange Bank which would exclusively be entrusted with the work connected with foreign remittances of the Government.

What we wrote in our memorandum on Industrial Banking (Enclosure II), namely, that "it would be unfair and unjust if money of the Government would be used directly or indirectly to compete with private industry" applies no less to banking. Still more is this the case since the financing by the existing banks of India's foreign trade meets, as far as we are aware, all requirements.

Competition would not be confined to the so-called Exchange banks. We fear that the detrimental consequences to the Indian joint stock banks would be worse. We take it as a matter of course that the State Bank would be allowed to take deposits and do inland credit business. This would encroach upon the field of all the private banks working in India, including the Imperial Bank. In the initial stage, when the Indian exporters and importers have no experience of the efficient and sound working of the new institution, we expect that its deposits which would practically be guaranteed by the Government would, to a considerable extent, be transferred from the Indian joint stock banks. The harmful effects of such a reaction on the banking position of India need no illustration.

This proves that the scheme is not only unfair and unjust but also unsound. It is not a business proposal. The banking situation of the country certainly does not require the creation of a new Exchange bank. The best evidence of this is produced by the fact, that the promoters of the scheme are obviously convinced that such an institution can only be worked on an artificial basis. They do not expect that private capital will be available and they propose to grant the new Bank the monopoly of the foreign Government remittances.

This last proposal would seriously hamper the task of the prospective Reserve Bank. According to section 21 of the Reserve Bank Bill of 1928, that Bank will have the right to transact Government business including Government remittances in India and elsewhere. This is the only right principle and of practically universal application. The Reserve Bank, which has as its principal function to maintain the gold value and the stability of the monetary unit of the country, ought as a matter of course to have the monopoly of foreign Government remittances. We

think it an indispensable condition for the fulfilment of the Reserve Bank's task that Government remittances should be concentrated in its hands which should not be tied down by compulsory provisions based on sentiment. We greatly appreciated the fact that the Central Committee accepted our recommendations to strengthen the position of the Reserve Bank and to provide it with the powers necessary for the fulfilment of its task. We are, therefore, all the more disappointed that a proposal has been put forward which would in our opinion seriously weaken that position and those powers. According to our conception—and this, we find, is in conformity with the recommendations of the Hilton Young Commission—the Reserve Bank ought to be free to purchase foreign exchange either by tender or in the market, spot or forward, adjusting its operations to the circumstances of the moment. These circumstances may, and will indeed, frequently change. It would certainly interfere with the free action of the Bank and be detrimental to the general interest of the country if Government remittances were confided to another institution whose action would not and could not be dominated by the duty to maintain the international value of the currency of the country. It seems to us doubtful whether the system of purchasing foreign exchange by tender will be continued by the Reserve Bank. We think it by no means unlikely that the Bank will soon reach the conclusion, that private purchases spread over a longer time, either from the banks or directly in the market, ought to be preferred. The Bank will have to build up its own stock of foreign exchange and out of this stock the remittances for the Government will then be made. If this system were to be adopted, it could never be settled in advance whether a purchase of foreign exchange would be made on behalf of the Government remittances or for strengthening the Bank's cover against its liabilities or in order to enable the Bank to sell foreign exchange at a later stage to banks or in the market to keep the rate of exchange within the gold points.

The freedom of the Reserve Bank to regulate these remittances in concert with the Government, and to slacken or postpone them when exchange is weak, to accelerate or increase them when the opposite is the case, is one of the strongest weapons in the hands of the Bank to keep the currency of the country at par with gold. This weapon would be taken away from the Bank or its efficiency would at any rate be seriously weakened if the work connected with Government remittances were transferred to the Indian Exchange Bank.

On all these grounds we feel compelled to advise most strongly against the adoption of this recommendation of the Central Committee. We are fully convinced that its adoption would shake international confidence in the financial policy and wisdom of the Indian Government.

If the Indian joint stock banks consider and decide that it is in their interest to establish by mutual co-operation a private Indian Exchange bank and to furnish the capital of that bank, we are of the opinion that it would not even then be advisable to create the new institution before the Reserve Bank has been constituted and before it has gained sufficient experience and influence to advise the Indian joint stock banks on the lines to be followed by the Indian Exchange Bank after it has started its operations.

In No. 7 of their conclusions the Central Committee deal with the introduction of rupee bills for import business. This subject is also touched upon in the Committee's conclusion No. 12 under the heading "Money Market".

In our memorandum on the Money Market (Enclosure IV) we wrote in this respect the following :—

> "In the above no mention has been made of the introduction of Rupee bills in connection with the import trade of India. At the present stage we consider the improvement of the inland bill and money market as the fundamental and primary problem. This problem must be solved before progress to an appreciable extent can be expected in the use of Rupee bills for settling foreign transactions. The question as to what currency the bill will be drawn in, forms part of the conditions which have to be agreed upon by buyers and sellers. It needs no comment that they will try to find the cheapest solution. Under normal circumstances the currency of that country will be preferred where the lowest rate of interest prevails and the money and bill market is so well developed that no doubt can exist about discount facilities being available at any time during the currency of the bill. These conditions are lacking in India. As long as this is the case, trade and industry will be hampered and the cost of imported goods raised by enforcing sellers of foreign goods to draw Rupee bills."

We are still convinced, that the passage, quoted above, contains the principles, on the basis of which this problem ought to be considered. The interest of the country is being served by financing its foreign trade in the cheapest way, that can be followed. To this extent we cannot agree with the opinion, mentioned in conclusion No. 12, referred to above. If, by discounting the bills in the London Market, a cheaper method of financing can be obtained than by discounting them in India, the first method is, in our view, to be preferred notwithstanding its consequence that the practice to draw the bills in sterling will have to be continued. It cannot be denied, however, that, although the bills are drawn in sterling, the majority of them have no access to

the London Money Market but are bought by the exchange banks on the conditions explained by the Committee in its conclusion No. 12, mentioned above. We suggest that the exchange banks should consider the possibility of changing the present custom to the extent that they would be prepared to accept the bills instead of purchasing them in the same way as "house" paper of a London exporting house is now accepted by the Exchange banks and discounted in the London market. If this suggestion could be followed—and we see no objections of real importance—the London Money Market would be opened to these bills and a better service would be rendered to the country than by enforcing the introduction of Rupee bills. It is not inconceivable that this introduction of rupee bills which not only depends on the co-operation of the importers in India but also on that of the exporters in other countries, might result in higher costs on the transactions than have to be paid under the present system. We are of opinion that in this respect also no artificial measures should be taken and the most economic arrangement should be adopted.

Money Market in India.

Under the heading "Financing of foreign trade" we explained our views on the introduction of Rupee bills in connection with the import trade of India. This subject is dealt with by the Central Committee in their conclusion No. 7 under the heading "Financing of foreign trade" and in No. 12 of their conclusions on the "Money Market in India". We may refer to what we wrote with regard to that conclusion No. 7.

In the provisional conclusions Nos. 17 and 19 the Committee proposed that the Reserve Bank should be permitted

> to act as agent for any Indian State and any member bank in the same way as it is empowered to act as agent for the Central and Provincial Governments;
>
> to act as agent in any place outside India for any member bank and to sell foreign currency or pay out in foreign currency on their behalf, to collect bills in foreign countries, and to accept against adequate securities in India, bills drawn by or on behalf of the member banks.

Although these provisional conclusions have been omitted from the conclusions as finally communicated to us, we consider the matter to be of such importance that we feel it necessary to deal with it in our report.

We must object to this extension of the task of the Reserve Bank in so far as member banks are concerned. We fully agree with the opinion expressed by the Joint Committee of the Legislative Assembly, to which the Reserve Bank Bill was referred

In their Report of the 18th August 1927, they wrote on page 3 against sub-clause (13) :—

> "We think that the power of the Reserve Bank to open accounts and act as agents of other banks should be restricted to central banks which are the principal currency authorities in their respective countries and among which we include the Federal Reserve Banks in the United States of America."

We consider this the right conception in accordance with the practice in most other countries. Especially with regard to the foreign exchange business of the Reserve Bank, we see great objections to the Bank acting as agent for member banks, using part of its holdings in foreign currency and doing acceptance business on behalf of these member banks. The activities of the Reserve Bank in the field of foreign exchange must on principle be restricted to what is necessary for performing its principal duty, *i.e.*, to keep the currency of the country at par with gold, in any case at a value between the upper and the lower gold points. It would be dangerous in our opinion to encroach upon this principle by inducing the Reserve Bank to place part of its foreign assets at the disposal of member banks on behalf of their foreign exchange business.

Conclusion 26 proposes to allow the Reserve Bank, if any approved joint stock bank opens branches at a centre where there are no joint stock banks, to place, for the first five years, a deposit with every new branch so opened of such sum and on such terms and conditions as it may consider necessary.

We are not in favour of this proposal. It could be interpreted in this sense that the Reserve Bank would be entitled to place these deposits without security and at a concessional rate of interest. This would mean the granting of clean credits and subsidies which would be contrary to the principles on which the policy of a Reserve Bank must be based. If this is not the intention, we see no reason for the recommendation since the Reserve Bank could in these cases grant a credit to the Bank against adequate security under the general rules of the Act.

The Imperial Bank of India.

In the second resolution it is stated that the restrictions imposed by the present Act on its transacting foreign exchange business or other class of business which are not imposed on the operations of Indian joint stock banks, should be withdrawn.

We were informed during our joint discussions that it is the intention that the proposed action should not be taken before the

Reserve Bank has been constituted. We agree with that intention since we are of opinion that having regard to the comparatively low cash reserves of the Indian banking system, the Imperial Bank should not undertake any new task before the Reserve Bank has started its operations.

According to the third resolution, any other matters connected with the Imperial Bank Act will be considered by the Committee separately.

It needs no comment that we are not responsible for the conclusions, to which this consideration will lead the Committee.

Regulation of Banking.

With regard to this subject we felt the difficulty that a very thorough, detailed knowledge of the circumstances prevailing in India is necessary to give definite advice on all suggestions placed before the Central Committee. Moreover, the Committee themselves had not formed their opinion about many of these suggestions when our joint discussions took place. We agreed, therefore, to leave the decision on the 68 points which are mentioned in statement B attached to the conclusions, to the Committee in so far as we had no objections on principle or did not fear that the adoption of the suggestions would hamper the sound and free development of banking. In connection herewith, we distinguish between the conclusions of the Committee and the suggestions in statement B upon which no such conclusions have been arrived at.

Conclusions of the Central Committee.

We are in agreement with these conclusions with the exception of the following points.

Conclusion 4, sub-paragraph (11).—As stated, the Committee will later consider the question whether the form of Balance Sheet and Profit and Loss Account prescribed in the Indian Companies Act, is adequate.

We wish to warn against compelling banks to disclose particulars of their business to such an extent that their position would be damaged.

Conclusion 4, sub-paragraphs (15), (16) and (17).—These provisions recommend a system of licensing banks. The licences, to be granted by the Reserve Bank, would be required for doing banking business in India and for the opening of new branches. Licenses should be freely granted to the already established banks and it would be the business of the licensing authority to see that the provisions of the law and any other conditions specified in the licenses are complied with.

We are generally not in favour of the introduction of a licensing system. Banking ought to be left to free competition and its development ought not to be hampered. We recognise, however, that if the Reserve Bank is made the licensing authority, our objections would be met to a great extent since we take it that the Reserve Bank would handle the system in a sound and impartial way. We do not, however, agree with the reasons given in justification of the recommendation. We consider that the protection of the interests of depositors by means of licences will be a dangerous responsibility for the Reserve Bank to undertake. We further think that the control over the banks operating in the country should be obtained by the Reserve Bank by means of its discount rate and its open market policy and not by means of the licensing system. The opening of branches by banks, working already in India should, in our opinion, in any case be left free from any interference by the licensing authority. This opinion is endorsed by the Committee in their conclusions on Commercial Banking, where they write in **Conclusion No. 3**, that it is not advisable in the larger interests of the country to restrict in any way the branch activities of the banks in India, even though it may result in overbanking in certain up-country places and in weaker banks, under the stress of competition, offering higher rates for deposits and accordingly giving loans at higher rates and increased risk.

We consider this reasoning, with which we fully agree, inconsistent with the recommendation to make the opening of new branches dependent on the approval of even the Reserve Bank.

With regard to the already established banks, we deem it a fundamental requirement of fairness and *bona fides* that licences should not only be freely granted but should also be automatically renewed as long as the provisions of the law are complied with. Apart from this, the licence should not impose any conditions on the existing banks.

The Committee recommend that annual statements showing the assets and liabilities of Exchange Banks relating to Indian business should be furnished by them to the Reserve Bank as a condition of the grant of licences. Though we are not opposed to such annual statements, we consider that their submission should not be made a condition of the grant of licences. In our opinion the submission of any statements by the Exchange Banks should be provided for in the Reserve Bank Act itself.

Conclusion 5, sub-paragraph (1).—We are of opinion that the Articles of Association should contain a proper regulation of the allocation of profits as proposed in conclusion 6 sub-paragraph (3). The formation of extra reserves should be left to shareholders on the recommendation of the Board of Directors.

Suggestions (Statement B in Conclusions of Central Committee).

We are prepared to leave the decision on the suggestions not mentioned hereafter, to the free decision of the Central Committee so that we have no comments to offer with regard to those points.

Suggestions (1), (2) and (3).—We are of opinion that the decisions to what extent clean advances and advances against immovable property may safely be given must be left to the management under control of the Board of Directors and under supervision of auditors. The same is the case with advances to an individual without security and with the amount advanced to any single individual or to any single concern. As we stated in our Memorandum on Banking Regulation (Enclosure V), the full responsibility ought to be left with the management and the Board of Directors and no measures should be taken which would weaken that responsibility. The limitation of clean advances would, moreover, conflict with the Committee's conclusions (12) and (13) on Commercial Banking.

Suggestions (6) and (7).—Restrictions on investments in shares and debentures of joint stock companies and restrictions as to short term and long term business must be deprecated on the same grounds as mentioned above, whilst especially suggestion (6) would hamper the development of industrial finance as advocated by the Central Committee in their conclusion No. 7 on Financial requirements of Industries.

Suggestion (10).—Reservation of the field of agricultural finance for the co-operative banks would be detrimental to agricultural finance, which is only covered at present to a very small extent by the co-operative movement, and to the development of banking facilities.

Suggestion (11).—Prohibition of a joint stock bank or its branches in town having a population of less than 25,000 would seriously interfere with the extension of banking agencies, so strongly advocated by the Central Committee (see conclusion 3 on Commercial Banking).

Suggestion (12).—A provision for licensing all persons doing banking business would, in our opinion, be impracticable, specially with regard to indigenous bankers and money-lenders.

Suggestion (14).—We cannot recommend a provision enabling auditors to publish instances of window-dressing in a schedule attached to the balance sheet. Auditors have the right to call attention to abuses in their reports.

Suggestion (19).—We are of opinion that directors of a bank may not be deprived of their rights as shareholders and that they are the proper representatives of the shareholders to hold proxies.

Suggestion (20).—The provision requiring that returns of up-country branches of banks should be certified by qualified local auditors, would be impracticable and too costly. The inspectors of the bank itself are the proper auditors for its branches, whilst the auditors of the bank should audit such branches as they consider necessary.

Suggestion (22).—We are against the appointment of a Controller of Banks. In any case we would advise not to take this step before the Reserve Bank has considered the matter and given its advice.

Suggestion (23).—To authorise shareholders of a bank holding 1/10th of the capital to apply to the local government for the investigation of its affairs by inspectors seems to us dangerous. 1/10th is too small a proportion for the handling of a right, the exercise of which will seriously affect the bank's credit.

Suggestion (24).—We are of opinion that the clause requiring applicants for inspection to give security of payment of the cost of the enquiry, serves a useful purpose in preventing frivolous applications and that this clause should be maintained.

Suggestion (25).—Since we do not approve of creating a Controller of Banks, we cannot support this suggestion.

Suggestion (26).—We have no objection to this suggestion if amended as follows :—

> "Provision that the expenses of enquiry shall be borne by the State, if it results in prosecution and in other cases by the applicants."

Suggestion (28).—We are opposed to this suggestion because we can conceive circumstances, such as the formation, by Indian joint stock banks, of an Indian Exchange Bank, where it would be desirable and logical that the directorate of the Exchange Bank is composed of directors of its founders.

Suggestion (31).—We see no reason why, in the case of voluntary liquidation, the director of a bank should be prohibited from acting as its liquidator.

Suggestions (32) and (33).—We are of opinion that the removal of a director from office and the retirement of directors are matters for shareholders to decide.

Suggestion (34).—We cannot agree with this suggestion since the right of a director to resign ought not to be restrained.

Suggestion (35).—We cannot recommend this suggestion since, as stated already, we are of the opinion that directors should not be deprived of their rights as shareholders.

Suggestion (*37*).—We cannot advise the adoption of this suggestion. The question whether and to what extent statements of affairs should be submitted to the shareholders, is a matter which should be left to the general meeting of shareholders to decide.

Suggestion (*39*).—A provision requiring that every institution doing banking business in India should have a majority of Indian directors, would interfere with the obvious right of the shareholders to select such directors as they think most suitable.

Suggestion (*40*).—We think it impracticable to fix a minimum standard of qualifications for the manager of a bank. The choice of an able and experienced manager ought to be left to the Board of Directors and the shareholders.

Suggestion (*44*).—The relations between a bank and its depositors do not justify the power of the latter to elect their own representatives on the Board of Directors.

Suggestion (*50*).—Prohibition of share hawking is impracticable and cannot be supported.

Suggestion (*51*).—We have no objection to a prohibition of blank transfers of shares if an exception is made for loans against shares.

Suggestion (*52*).—To prescribe a time limit within which transfers should be registered, would not be necessary if suggestion (51) be adopted.

Suggestion (*58*).—We have no objection to a provision requiring information to the Central Banking Authority regarding closing of branches, whereas we must strongly advise against the prohibition to open a new branch by any banking institution in India without the permission of that Authority. We explained our arguments for that advice under conclusion 4, sub-paragraphs (15), (16) and (17) above.

Suggestions (*61*) *and* (*62*).—We are against these suggestions because we consider these prohibitions to acquire controlling interests in banking institutions an unwarranted interference with the obvious right of the shareholders to dispose of their property. The decision whether steps of this kind should be taken, ought to be left to shareholders.

Suggestion (*63*).—We are of opinion that it would not be wise to provide special safeguards for protecting the interests of depositors and other Indian creditors in the event of winding up of non-Indian banks. If every country where a foreign bank is working did the same, the bank would have to split up its assets against its liabilities in several countries. Apart from the impracticability of such a procedure, it would weaken the position of the whole institution and therewith the position of the creditors.

Suggestion (*64*).—We are opposed to any preference being given to any class of depositors.

Suggestion (*65*).—We are against this suggestion. If a certificate were taken from the Advocate General or from the Registrar of companies before anybody takes criminal proceedings against a banking company and the Advocate General or Registrar allowed the case to proceed, the position of the bank would become at once most serious and much worse than under the present situation. It can, moreover, not be expected that the application for a certificate would be kept secret so that the suggested remedy would prove inefficient.

G. C. CASSELS.

L. J. A. TRIP.

B. CURRIE.

A. P. McDOUGALL.

A. FRIEDERICH.

ENCLOSURE I.

Commercial Banking.

In the exact sense of the word Commercial Banking in India is done by the Exchange Banks as well as by those banks which are dealt with in this memorandum, but the Exchange Banks specialising more or less in the financing of the Foreign trade of the country are generally and also in the Banking Enquiry considered as a special group which we shall here deal with principally as far as they compete with the other banks. They do so in giving commercial and industrial and also up-country credits and they compete in taking deposits. While the Exchange Banks have their head office abroad and their capital in other currencies than rupees, there exists a line between them and Indian Joint Stock Banking through the majority ownership of the Allahabad Bank resting with the P. & O. Banking Corporation which, again, is controlled by the Chartered Bank of India, China and Australia.

Other agencies for commercial banking are the Imperial Bank, the Indian Joint Stock Banks and the Indigenous Banker.

Of the Imperial Bank and the Joint Stock Banks, it may be said that they do—with the exception of foreign exchange business, which is not allowed to the Imperial Bank and which seems to be only slightly cultivated by the few larger Joint Stock Banks—the regular banking business like English banks. As far as their business differs from the pattern it is mainly due to special Indian conditions, the limited bill and money market and the particular kind of merchandise serving as security in a country of prevailing agricultural production and export. The lack of a Central Banking Institution is not excessively felt, it seems, in the business of the Joint Stock Banks, as the Imperial Bank serves apparently as Bankers' Bank to satisfaction although it is not quite convenient to use a Bankers' Bank, which is at the same time the most important competitor. Very little or no use at all is made of banks' acceptances; this may partly be due to the pattern of the English Banks which formerly but not any longer —left the acceptance business to special firms or institutions relying themselves for their working capital mainly on the vast resource of deposits; the principal reason lies, however, apparently in the limited money-market, in India. With a development of the money-market, perhaps after the formation of the Reserve Bank of India, the bank acceptance may come more in use and may widen the banking facilities offered by the commercial banks, especially for purposes where cheap and regular three months' credit is desirable.

The statement, that the Imperial Bank and the Joint Stock Banks serve the banking requirements more or less on the English pattern, means that they are not doing the industrial financing business nor any stock exchange business which is left in England to the private banker, respectively the stock broker, and that these Indian banks are not doing the universal business on the Continental European or so-called German line. As there is no general agency in this country devoting its banking activities to the business done by the London private banker, it is no doubt worth the while to examine the question whether these commercial banks ought not to accept the German system of more universal banking. It would not necessitate their taking up stock brokerage business as well; this could remain in the present condition with a somewhat closer relation of the banks to this or that stockbroker's firm which becomes useful when the banks take up industrial financing and issuing business. We shall deal with this problem, so closely connected with Industrial Finance and with the Investment Market, when these subjects are discussed.

From a mere banking point of view, the principal features of commercial banking in this country are two; the large amount invested in Government securities by the banks and the prominent position held among the banks' loans by those given against actual merchandise deposited either in the banks' godowns or in the Proper legal form with the customer. Both classes of banking investments signify a comparatively undeveloped banking system, but it cannot be doubted that under existing circumstances no change of policy is possible. The large investment in Government securities takes partly the place of marketable bills—rediscountable with a Central Banking institution—in western countries, at least to some extent, and it will have to be seen whether and when with the Reserve Bank in existence there can be a change in the present method. The stimulation of a bill market to replace the Government Securities as practically sole liquid reserve, will have to a certain extent to compete with the habit of the Government, in no way illegitimate, to raise money in a market in which the cash resources of banks create a permanent demand for Treasury Bills. While at present no change in policy can be recommended, it is to be hoped that the Reserve Bank, the early establishment of which is strongly supported by the experts, will cultivate with the banks a system of preferential investment in bills and the holding of Government Securities as an additional reserve.

With regard to the system of tangible security in merchandise for bank loans, we think matters must also for the present more or less remain as they stand. While with further development with the increasing number of firms of undisputed standing the reluctance of the banks to loan against block-mortgage or without security, will by and by diminish, no steps must be taken to prematurely encourage the banks to be less cautious and conservative in granting credits. Competition among banks, in this field particularly, can be relied upon as a progressive element. An important factor in restricting the banks to the somewhat crude forms of loaning against perfectly tangible and saleable security is the legal position of the Indian customer. It is not in the reach of a banking expert to devise changes in that system, but it is to be recommended that this field be investigated by legal experts with a view to remove some of the objects against less stringent rules with regard to security.

To encourage more than at present the granting of unsecured bank loans, the commercial customer ought to accustom himself to divulge more freely to his banker his financial position. Secrecy about business affairs is much more cherished in India than in western countries and it is a great impediment to modern banking. Information about the customer seems to be at present gathered by the bankers more by listening to the rumours in the Bazaar, than from the customer's own statement. Some Indian Chamber of Commerce ought to study this problem seriously with the object of finding some system of collecting reliable information which suits the needs of the creditor and is as much as possible in conformity with Indian customs.

The Joint Stock Banks and the Imperial Bank are cultivating a kind of business which may seem unimportant from a western point of view, but has the advantage of encroaching upon the field of the moneylender; the loans against personal ornaments. It may help to accustom a part of the population to the use of banking facilities for borrowing and for saving.

An important problem is the use of vernaculars in the various fields of banking. Efforts are apparently being made to introduce and at the same time standardise the use of vernaculars. Perhaps the Imperial Bank sees its way to bring about in conference a joint attitude of the commercial banks in this matter which is also apt to accustom

the population to make use of banks and indigenous bankers instead of less desirable credit agencies.

When studying the Commercial Banking System of a country, three main questions occur:—

1st. Are the banking facilities sufficiently extended?
2nd. Does the competitive position between the various kinds of banking institutions suit the needs of the country and does the prospective evolution call for interference?
3rd. Is the standard of banking throughout as high as necessary to protect the interests of the public and particularly of the depositor?

1. The question whether the banking facilities of India are sufficiently large for the economic needs of the country has in the Enquiry been almost unanimously answered in the negative by—the non-bankers. This criticism cannot be fully upheld from an expert point of view, as the decision cannot lie exclusively with the statement that demands for more or cheaper credit are not satisfied in many localities. The establishment of a bank or a branch has to dtpend equally on the prospect of soliciting deposits. Evidence to the Banking Enquiry contradict themselves in a significant way, some criticising that deposits received in one district are not used for the banking needs in the same district, and others complaining that localities not yielding themselves sufficient resources are not properly supplied with banking credits. That the country is not abounding with untapped banking possibilities is shown by the development of the deposits with the Imperial Bank. While this bank had under its agreement with the Government to open a great number of new branches in the last ten years, its deposits have during this period not increased accordingly, if at all, as the following figures of its deposits from the public for 1919 to 1928 show (in lakhs of rupees). 6821, 7802, 6578, 5701, 7420, 7671, 7783, 7390, 7207, 7130.

The figures for Joint Stock Banks and the Exchange Banks, in spite of the establishment of new banks and branches, are quite similar, and the total of bank deposits have developed as follows during the period: 20384, 22630, 22114, 19541, 19033, 20253, 20629, 20859, 20523, 20879.

It is even doubtful whether or not some up-country places are rather over-banked. There is a danger in too many banks or branches competing in a locality as it leads the weaker banks to offer higher rates for deposits and accordingly to give loans at higher rates and increased risk.

The Imperial Bank has and the Reserve Bank will have a good insight in the proper geographical distribution of banking facilities, and the Reserve Bank should be able to exercise some influence in this direction. At the same time the practice of the Imperial Bank to establish sub-stations in less important places ought to be encouraged. The Imperial Bank and other Joint Stock Banks ought to study the advisability of attaching suitable Indigenous Bankers to their organisation; we shall revert to this.

2. The competitive position of the Imperial Bank, the Exchange Banks, the Indian Joint Stock Banks and the Indigenous Banker does, in our opinion, not call for outside interference. On the whole, free competition will for many years act as the best guide for progressive development. No interference by legislation, or otherwise, beyond the educative influence of a Reserve Bank, ought to prevent to any extent the appearance of new and the disappearance of unsuccessful banks. A chance must be given to the fittest. Official assistance is given to some Joint Stock Banks in a few Indian States, but we do not recommend it for imitation, although it may not be unsuited for smaller

independent districts. The Government balances should remain concentrated with the Imperial Bank. They will anyhow, in future, be administered by the Reserve Bank and in the meantime we doubt whether with the Imperial Bank the financial benefit of varying Government balances is not counter-balanced by the increased permanent expenditure connected with the services to Government.

The *Imperial Bank* in its present form, and more so even in future, when it will be purely the biggest Indian Joint Stock Bank, deserves and may expect a prosperous development. In another section of our discussions we would like to investigate whether the banks' activity could or should not expand to cultivating sound methods of industrial finance. The other Joint Stock Banks generally are in our opinion bound to benefit, if the Imperial Bank can through its own successful career strengthen general confidence in Indian Banking. To give the Imperial Bank the right to deal in foreign exchange even previous to the automatic removal of the present restrictions, when the Reserve Bank comes into existence, is scarcely to be advocated, although the building up of a net of international connections would probably be beneficial under many aspects. Its present capacity as Bankers' Bank, the Government business and the completion of the up-country organisation, may not allow a further extension of the banks' sphere of activity before the rather radical change in its constitution comes naturally with the appearance of the Reserve Bank.

The future development of the *Joint Stock Banks* with the exception of the small number of well established institutions seems less secure. Past unfavourable experience is not certain to have led to a thorough change of system. There is no co-operation between Joint Stock Banks which could improve the standard, eliminate weaker elements and foster the combination of smaller banks to larger units. Almost all countries know besides such institutions which serve special joint purposes like Clearing House Associations, Bankers' Institutes, etc., some organisation to further the interests of the profession, offering expert advice to the Government and endeavouring to uphold and improve the professional standard among the members. Such co-operation and the creation of a Joint Stock Banker's Association is strongly recommended. It will be helpful to safeguard the members' interests when the Reserve Bank will establish a policy of classification among those banks with which it intends to do business. A valuable pattern is supplied by the Bankers' Guilds in China which organise and educate their own members and keep in touch with other groups. Some material is available with the experts. No obstacles should be put in the way of mergers between smaller Joint Stock Banks by stamp duties or taxation, and if such obstacles exist they should be removed.

One of the most important problems of Commercial Banking in this country is the future position of the *Indigenous* Banker. Can he be linked up to the rest of the banking system? The Banking Enquiry has brought to light much interesting material on the Indigenous Banker in the various provinces, but it calls for further penetration and the experts suggest it for special discussion, eventually in conjunction with some Commercial Banks. There may be several ways how the Indigenous Banker can be linked up more closely to the banking system. He may for himself and others with which he already does business, form a joint stock bank. The Imperial Bank or other Joint Stock Banks may affiliate him as agent for collecting deposits or giving loans under supervision. This position may be strengthened by a rule to be established by the future Reserve Bank, which, if he complies with it, would create a distinguished rank of indigenous bankers.

All these possibilities ought to be further examined and discussed between Committee and experts. The future Reserve Bank will have an important influence on the development or decay of this banking agency, and it may here find an instrument in expanding the habit of commercial bills.

The Co-operative Credit Institutions have tried to build up a banking business among its members in the familiar triple organisation of local societies, district or central banks or banking union and the provincial apex Banks. The competition of the co-operative movement with ordinary banking as well as with Indigenous Bankers is not liable to create much sympathy for the movement just in banking circles and particularly so where the co-operative credit organisations appeal also to outside depositors who are not members. The co-operative movement in spite of imperfections and of unavoidable set-backs deserves every possible assistance from all quarters, because there is no better instrument for raising the level of the agriculturist of this country than the co-operative effort, and a strong appeal to the banking interests of the country to assist this movement seems not at all out of place. The Imperial Bank particularly ought to continue and to increase its endeavours to supplement the present organisation of co-operative credit with expert advice in a business spirit and with financial assistance. It may be a source of profitable business for the Imperial Bank. A well-known German Bank 25 years ago established itself in a special department which is quite profitable, as an apex bank to one of the two large co-operative institutions of the country. A publication by the Dresdner Bank is available.

3. With regard to legislation to protect the public against abuse on the part of dishonest or incompetent bank management, a general observation must precede the examination of actual suggestions.

The principle followed in some countries, *e.g.*, in Germany, of regulating all stock companies, banking and otherwise, in one company law, has great merits. The protection of the shareholder includes automatically and efficiently the protection of the creditor. The company law can regulate for all stock companies the minimum capital, the provision to put up new capital in real cash, the duties and rights of the Board, rules on the distribution of profits and the formation of reserve funds, etc. A special legislation is rarely a real protection; if it is evaded and if it does not prevent bank failure and mismanagement, it is liable to reduce in the population the respect of law. In the U. S. A. in every crisis as again in the present one, hundreds of smaller Joint Stock Banks fail with the effect of shattering general confidence. All those banks comply with the numerous legal provisions, have their balance sheets audited and publish a weekly statement. Their failure is attributed by some largely to a special legislation which attempts to prevent a domination of the country by large branch banks sitting in the big centres of the country, the popularly so-called money-trust, and which is meant to encourage the development of local economic resources. With these purposes the American Law, partly federal partly state laws, forbids the opening of branches interstate and, with the exception of about 10 states, also inside of a state, preventing thereby a sound distribution of risks.

Of the proposals made during the Banking Enquiry, which has been particularly fertile in suggestions of this kind, the following deserve most sympathy:—

(*a*) Who should be entitled to use the name of 'Bank' or '*Banker*'? A proper definition seems very difficult and rather unnecessary in a country where the majority of the

population is illiterate and more familiar with the moneylender than with the banker. A compulsory separation of trade from banking in order to give banking a privileged position may in future be, but seems not at present a policy to be recommended, and to distinguish a banker by a licence-system is at least at present a doubtful measure.

(*b*) *Minimum capital for Joint Stock Banks.*—As obvious at first sight, such prescription is difficult and ineffective in practice. It would have to be a provincial regulation because in some districts the minimum can be lower than in others, but even the province will prove to be too large a legislative unit. A capital of one lakh may be used to establish a sound little banking institution, while five lakhs of capital may be utterly mismanaged. What seems really urgent is to abolish the abuse of a large authorised and very small subscribed and a still smaller paid-up capital. It is found and certainly sometimes meant to mislead the public. It would be advisable to give authority to the registrar of companies to inhibit this abuse.

(*c*) *Auditing of balance sheets.*—Inside of the provisions of company Law, making the audit compulsory in India like in most but not all countries, there is a great variety of possibilities to ensure competent auditing, and the experts will give advice in a special memorandum based mostly on English, American and Canadian experience. This is one of the matters in which the proposed Joint Stock Bankers' Association can do helpful service to the profession. Auditing is much more efficient if the selection of auditors is backed by the common interest of a community desiring to improve the professional standard.

(*d*) *Publicity.*—The future Reserve Bank will be the best authority to rule on a standard of such publications as it is done in many foreign countries. It requires, of course, an education of the public to read such statements and the best judge will be again the Reserve Bank.

Attention may be drawn, without making it a formal suggestion, to a German form of Joint Stock Company which is used there to a certain extent by bankers. A short memorandum is submitted on the institution of what may be called in translation 'Limited Companies in partnership with unlimited liability of the partners'. The '*Kommanditgesellschaft auf aktien*' is a joint stock company where at least one person, who also manages the company but does not necessarily hold shares, is personally liable to the creditors of the company. This or these persons are so-to-say the partners of the community of stockholders; their position towards the stockholders is therefore more independent than that of a manager or managing director; his income consists in a share of the profits. The form had been almost abandoned in Germany but has come in use again more recently with banks because it naturally increases the confidence of the depositors. One could imagine that this legal form has some attraction with smaller joint stock banks in this country, because it removes the depositors apprehension that the directors may, as has unfortunately been the case ocasionally, manage the bank unduly in their own interest, and it may appeal to the indigenous bankers to form a joint stock company in which they will occupy an independent position justified by their personal liability. Every company law ought to offer various models of Joint Stock Companies for selection, and this may be one among others.

ANNEXURE.

KOMMANDITGESELLSCHAFTEN AUF AKTIEN.

(Joint stock companies in which at least one holder is liable, personally and without limit, for the company's debt.)

HISTORY:

The form of the "Kommanditgesellschaft auf Aktien" (abbreviated: "K.a.A.") is historically due to the fact that, contrary to the ordinary Joint Stock Company (Aktiengesellschaft) the foundation of a "K.a.A." did not formerly depend on the grant of a licence. After the licence-system had been abolished by law in the year 1870, the possibilities of making use of this special form of company became even more limited. The legislation enacted during and after the war, however, offered new chances for its application. Apart from certain tax privileges, it proved easier to form new banking firms in the shape of a "K.a.A." than as ordinary Joint Stock companies. Indeed, the fiscal authorities granted the right to accept deposits more easily to a company with personally liable partners whose participation in the company could not be assigned to other parties without the consent of these authorities, than to an impersonal Joint Stock Company the shares of which could not be controlled with absolute security. Besides, the "K.a.A." offered an additional advantage inasmuch as it permitted to oppose with better chances of success than with joint stock companies the danger of passing under the control of foreign capital (Überfremdungsgefahr). Finally the position of the personally liable partner is different from, and safer than, that of the managing or executive committee (Vorstand) of a joint stock company. Indeed, the personally liable partner is a partner who owes his position to the articles of association of the company, while a member of the managing committee of a joint stock company is, economically speaking, an employee of that company.

Characteristics of a "Kommanditgesellschaft auf Aktien"

One or more partners are liable, personally and without limit, to the creditors of the company. (Personlich haftende Gesellschafter, Geschaftsinhaber or Komplementare). All others participate in the company as limited partners with participations in the capital which is divided into shares. (Kommanditisten, Aktionare Anteilseigner.) The Law does not provide as in the case of "Kommanditgesellschaften" (limited or special Partnerships), that the "limited partners" (Kommanditisten) shall be liable to the company's creditors. The "limited partners" of a "K.a.A." are for all practical purposes shareholders of the company. The "K.a.A." thus contains elements of the "Kommanditgesellschaft" (*i.e.*, the personally liable partners) as well as elements of the "Aktiengesellschaft" or Joint Stock Company (*i.e.*, its shareholders).

The "K.a.A." as such is a legal person of its own. It thus carries of itself rights and obligations, it may acquire in its own name ownership in real estate and other incorporeal rights, it may bring action against other parties or be sued by them.

The personally liable partners are answerable with their entire property to the creditors of the company. The assets of the company

are not, however, answerable to the private creditors of the personally liable partners. The personally liable partners may participate in the share capital of the company. They need not, however, do so. If they participate in the share capital, this fact must be laid down in the articles of association.

The "K.a.A." has no managing committee (Vorstand) as the business is managed by the personally liable partners. It has a Board of Directors or Governing Council (Verwaltungsrat) which is the controlling organ of the shareholders, and, besides, a General Meeting of shareholders. In the latter, the personally liable partners have no voting rights in respect of the shares they own. Resolutions of the General Meeting or shareholders are only valid if the personally liable partners agree to them. Contrary to what is the case with the managing committee of a joint stock company, the General Meeting thus cannot force the personally liable partners to adopt against their will a certain course of action.

The balance-sheet of a "K.a.A." must be voted both by the General Meeting and the personally liable partners. Alterations of the Articles of Association (including increases or reductions of the share capital) must likewise be voted by the General Meeting and have the consent of the personally liable partners.

The greater personal security of the personally liable partners becomes effective when an outsider has bought up an important portion of the share capital. With regard to such cases, the following clauses contained in the bye-laws of a large Berlin company—similar clauses are provided in the bye-laws of all "K.a.A." are particularly interesting:

"The Governing Council (Board of Directors) may at any time give notice to leave to a personally liable partner, provided that at least two-thirds of the then existing members of the Governing Council take part in the vote and that such vote has been arrived at with a majority of three-fourths of the members present at the meeting. Besides, an eventual notice to leave within six months' time or a longer period requires the consent of the majority of the other personally liable partners, while for a notice to leave within less than six months the consent of all other personally liable partners is required."

The outsider shareholder must, therefore, if he wishes to attain his end, first of all have new members elected to the Board of Directors.

Now, in order to elect new members of the Board of Directors, a General Meeting of shareholders is necessary. The members of the Board of Directors can only be dismissed before expiration of their turn, if the decision has been carried with a majority of three-quarters of the votes cast.

Some recent statistical data on German Banks.

A rough survey of German Banking may possibly best be given by an extract of a few figures from the monthly publications to which all German Credit Banks submit; the figures are collected, grouped and published by the Reichsbank as the Central Bank of the country.

The figures are compiled as per 30th of September 1930 so as to show capital and reserves and added to it the entire amount constituting the working capital of the respective groups of banks, *i.e.*, deposits and all other creditors as well as the acceptances, which are only

customary with the private banking institutions. The figures are given for three groups of banking institutions, all devoted to commercial banking, and they do therefore not include mortgage banks nor co-operative credit institutions. An exception has to be marked for two large provincial banks which are at the same time credit-and-mortgage banks, a unique but old established exception to the rule. These two banks, are included in the working capital of the private provincial credit banks with an amount of outstanding mortgage bonds to the extent of 68 crores.

The figures for the *private credit banks* are given sub-divided into the 6 largest banks operating from Berlin, of which 4 are devoted to branch banking while the other two concentrate their business in one office in the capital of the country and into the provincial banks, much more numerous but aggregating in amount only one sixth of the 6 Berlin banks. The private bankers, a dozen large and important, the rest small to smallest, number about 2,000; they do not publish balance-sheets and are not included in the figures. The number of bank branches is about 4,500.

The two other groups are *public banks;* one group being state banks the other apex banks of municipal savings institutions. Deposits with savings institutions proper, amounting to about 650 crores of rupees all over Germany are, of course, not included in this statement. Almost every German state, which as political unit corresponds more or less to the Provinces of India, has a State bank with a capital of their own doing though not quite a general but within certain limits an almost universal commercial banking business.

[*The figures are given in crores of Rupees.*]

I. Private Credit banks—			
(*a*) *6 Berlin Credit banks*—(the largest with 30, the smallest with 3 crores capital and reserve).			
Capital	39 crores.		
Reserves	22 ,,		
		61	crores.
Acceptances	36 ,,		
Deposits and Creditors . .	778 ,,		
		814	,,
Working capital .		875	crores.
(*b*) *84 Provincial Credit banks*—(between 4½ crores and 3 lakhs capital and reserves each).			
Capital 26 crores, Reserve 8 crores	= 34 crores.		
Acceptances 8 crores, other Creditors 102 crores	= 110 ,,		
Working capital .		144	crores.
II. *State Banks :* 21 with 8 crores capital and 3 crores reserves and an entire working capital of . . .		211	,,
III. *Savings Apex Banks :* 17 with 12 crores capital 3 crores reserves and an entire working capital of . . .		155	,,
Entire banking working capital .		1,385	crores.

ENCLOSURE II.

INDUSTRIAL BANKING.

It is necessary to start from precise definitions and we may therefore be allowed to replace the term 'Industrial Bank' by 'Industrial Corporation'. The 'Industrial Bank' as described in the majority of evidence and suggestions to the Banking Enquiry, is an institution investing in shares and bonds of industrial enterprises and long-term loans of such and is itself financed by share and debenture-capital. It keeps a controlling influence in the management of industry which it assists. Such institution to the knowledge of the experts does not anywhere cultivate at the same time a regular banking business. *Industrial banking*, on the other hand, means doing banking business with industrial firms. This is done by all commercial banks in all parts of the world. It is not correct to say that India has no industrial banking. There is probably no industrial enterprise which does not directly or through its Managing Agents do business with some bank of the country keeping balances with the banks or taking loans and using the services of the banks all round. What the banks in this and several other countries do not cultivate is the long-term financing of industries. We propose to call it 'Industrial Finance' distinguished from 'Industrial Banking'.

It seems necessary to state clearly that 'starting of industries' is nowhere considered to be a bank's affair. It has to be made clear that it is not sufficient in itself that an industrial firm should put up its block from its own capital and that having done so the firm can appeal to banks for loans and assistance. Not only block but also normal working capital has to be furnished out of the firm's own initial capital, and before the firm is fit for Industrial Banking or Industrial Finance, it must have been in operation for a sufficient period to prove that it is strong enough. It cannot be sufficiently emphasized that these two conditions are essential, and to attempt a different way of financing is not only unwarranted for the bank but also unsound and dangerous for the industrial enterprise.

In the Indian Banking Enquiry the German banking system is repeatedly quoted as different from these principles. This assumption is misleading and ought to be eliminated, because it leads to the recommendation of a pattern which does not exist. Only a few months ago a book was published by P. Barrett Whale, lecturer in commerce in the University of London—'Joint Stock Banking in Germany—A study of the German Credit Banks before and after the War.' (MacMillan & Co., Ltd., London, 1930). It is, in fact, the only comprehensive and neutral study on the subject giving the facts with careful comment and cautious conclusions.

In what respect does the German banking system differ from the English? Owing to the fact that English Banks cannot be members of the Stock Exchange and to the presence in London of several large international Issuing Houses, the English banks tend to delegate some of the functions of Industrial Finance to issuing houses and stock brokers—the German banks perform these duties themselves. They do a large commission business for their clients in the stock-market and they cultivate financial transactions which arise from time to time in the life of industrial and similar joint stock companies. If such companies wish to procure new capital, whether it be from its existing shareholders or by a sale of new shares or debentures to outside parties in the general capital market, then under the German system the company does not go, as under the English system, to an issuing house or to a stock broker instead of arranging the transaction

with the bank with which the company is in permanent banking relations. The German banking system is comprehensive, while the English system is specialised. The Banks in U. S. A. have cultivated for several years the business of Industrial Finance in special Security Companies, which belong entirely to the banks, of which they are practically only a department. Under the German banking system such financial transactions which occur from time to time are however limited by the same conditions which govern the English issuing houses or stockbrokers. They require a responsive capital-market and if the public are unwilling to put up the new capital required by the industrial company and which is offered to the market in a suitable shape, then the banks under the German system will not take the place of the public. They will not themselves furnish to the industrial company what the investing public is not prepared to take. The financial transactions mentioned require a certain amount of capital investment which however must remain below and be in conservative relation to the share capital and reserves of the banks. The amounts invested in such industrial finance, while remaining more or less stable in the aggregate, change in their composition as quickly as market conditions will allow. If the public is not responsive to the offer of the securities resulting from such industrial financing, then the amount normally invested by the banks in this branch of their activity, cannot be raised, but the participation of the banks in financial transactions of that kind must cease until the public is again prepared to buy securities.

The ordinary banking business is also under the German system decidedly the most important department, because in that banking department the deposits from the public are employed while in the department for industrial and similar finance only a limited share of the capital of the bank can operate. What is described above as the business of the Indian Joint Stock Banks and partly the Exchange Banks with industrial firms is done similarly by banks under the German system.

While it has been necessary to destroy some illusions about the German banking system with regard to its activity in industrial matters, the German system offers indeed a great many advantages for the Industrial development of a country and benefits the banks as well. This however is only on the condition that the business of finance is handled with the utmost caution and care. Banks engaging in industrial finance should not and indeed do not start new industries, nor should they manage industrial enterprises by themselves. German banks do not employ a staff of industrial experts nor do they delegate members of their own staff to undertake the management of industrial companies. What they do is to cultivate not only regular commercial banking business, but also financial transactions, if an opportunity occurs. They incidentally get to know their industrial customers better. They develop a sympathetic attitude for the needs of industry. They watch closely for every possibility of doing business which will be profitable to both parties. The banks may then delegate a member of their management to act on the Board of Directors in order to maintain a close connection with the company. The English Banks also do this. The system of close intercourse between bank and industry creates an atmosphere of mutual confidence. The result is beneficial to both parties. The banks must not however allow themselves to be drawn into liabilities and investments which are not compatible with sound banking. The sympathetic attitude of banks towards industry is the real element of this banking policy. It deserves the appreciation which it has found in the Banking Enquiry.

It must be admitted that, in India, no banking agency cultivates industrial relations on the line of the so-called German system nor does an institution, like the English issuing House, which could fill this vacancy, exist in the country. There is the stockbroker with his customers in and outside of the Stock Exchange. There is sometimes the indigenous banker with his clients. There are occasional promoters, but to a large extent the vacancy is filled by the Managing Agents.

The Managing Agent is a very interesting institution, not familiar to European or American bankers, and it deserves a thorough study of the advantages and disadvantages pertaining to it. Under the system large and prosperous industries have been started in this country. A table available gives a short and not quite complete list of a few hundred stock companies, the shares of which are quoted on the Calcutta Stock Exchange. It illuminates the activity of some of the most important firms of Managing Agents operating in the Calcutta Field. It should not be with the intention of eliminating or even largely replacing the Managing Agents that the big banks should in future take a greater interest in industry on the lines described above. The Managing Agent system is open to criticism. There ought to be still another financial agency to meet the requirements of industrial firms, which would make industry less dependent on that institution. A company with a proper board enjoying friendly sympathy and banking advice, ought to be in a position to manage its own affairs. A period of prosperity for some Indian Industries in the boom period after the War has been followed by International depression in the Cotton Trade and more recently by the international economic crisis. It is not unlikely that as in all other industrial countries, changes will take place—mergers, reconstructions of unsuccessful firms, and so on. Sooner or later, such transactions will require outside financing and this will be the opportunity of starting closer relations between bank and industry. Which kind of banking agency will be most capable to lead this development?

The Exchange Banks are generally indifferent or adverse to financial transactions with industry beyond the frame of commercial banking. They argue that they specialise in complicated finance of foreign trade to which a certain amount of commercial banking is attached. They believe that it is not their business to be represented on the board of industrial companies or to lend their name, organisation and eventually part of their resources to financial transactions based on the sale of securities to the public. There is much in the argument.

Among the Joint Stock Banks there are very few large enough to be capable of this class of business. As is evident, it requires much experience and an established policy of sound banking. It requires considerable capital and a firm resistance to the speculative temptation which easily arises in a line of business, where securities are created and sold. The bulk of Joint Stock Banks are unfit for this activity. Even the larger ones ought only to cultivate it slowly, with great caution, and preferably under competent guidance as participants in strong syndicates.

There remains the Imperial Bank. This strong and well-managed institution might by and by develop the business of industrial finance on conservative lines. It is out of place to give this suggestion the character of detailed advice as it is a matter for the shareholders, the management and the board of directors to decide upon their own business. But the opinion is expressed here, that when the Reserve Bank comes into being the Imperial Bank would be capable of developing this business and that benefit would result not only to industry

and the general economic development of the country but it might also be equally profitable for the bank itself. It is doubtful whether the Imperial Bank is under the present restrictions and privileges in a position to enter this field successfully. As it requires a systematic preparation, it does not seem too early for the Bank to study the ground and lay the foundation. It may, for instance, be useful to establish an industrial research department inside the Imperial Bank. It would have to be on a somewhat larger scope than the usual Statistical or Intelligence Department and could use the insight which the branches of the bank already possess or can easily collect.

Investment Market.

As the extent to which banks can cultivate financial transactions with industrial or similar Joint Stock Companies, depends on the capacity of the capital-market, some observations on the volume of it in India may follow.

The Banking Enquiry has heard much complaint about the insufficiency of the capital-market in India. It is useful to try this statement by auditing statistical figures. After all, the boom period following the War allowed the flotation of many stock companies and a speculation which would do honour to any speculative performance of a Western or American Stock Exchange. The extent of a possible investment market may be illustrated by the following figures.

Official statistics on the Joint Stock companies (Government publication No. 2212, 1930) give the number of Joint Stock Companies with rupee capital for 1928 as 5,831 with a paid-up capital of 276 crores. This figure, although companies with a capital in pounds sterling are excluded as not representing Indian capital proper, requires some modification in order to arrive at those shares likely to be in the hands of the public. A compilation has therefore been made from the Calcutta Stock Exchange quotation list which includes most of the shares quoted in Bombay. The part value of those shares is about 85 crores in common and about 20 crores in Preference Shares. Considering that a fair amount of these shares is in the hands of Managing Agents and that on the other hand the majority of the shares are quoted at a premium, one may estimate the value of shares in the hands of the public at about 125 crores. This does not include shares to the value of 75 crores which is held in special hands and which are also eventually available for investment. Debentures and fixed deposits with stock companies may on the strength of a share capital of the Cotton Mills in the country of 40 crores and 10 crores of debentures listed in Calcutta, be estimated at about 30 crores. The Government loans in India, exclusive of treasury bills which are more an element of the money than the investment-market, should figure in this statement with about 350 crores out of about 400 crores outstanding, the difference being Government securities held by banks and insurance companies. Municipal and Port Trust loans in rupees are about 70 crores. To these investment securities should be added the deposits of the public with bank and the post office (including certificates) in an aggregate amount of about 300 crores which are at least partly available for capital investment. The deposits with co-operative institutions are left out of account as not being available for the investment-market. If on the strength of these figures the capital-market in India itself is estimated at somewhere near 700 crores, one is not justified in speaking about the Indian investment-market in a derogatory way. The estimate excludes not only the bulk of foreign capital working in the country, but also the hoarded property in monetary form and the amounts used in money lending.

The figures also show to what extent the Government absorbs the available investment capital. It does not appear to be excessive considering all circumstances.

Altogether the capital-market in India seems to be large enough to meet legitimate demands and to give room to a certain activity of banks in the fields of industrial financing. For quicker economic development it should be able to draw upon two resources; the hoarded monetary property and foreign capital markets. The problem of hoarding does not appear to have been investigated very successfully in the Banking Enquiry and it ought to be gone into further in the course of verbal discussion. As hoardings the personal ornaments should be more or less neglected; this kind of hoarding is so deeply rooted in the customs of the great mass of the people in this country, and the primitive character of most of its savings is such that only slowly can these amounts be turned into available monetary capital. Only the hoarding of money, of gold and silver bullion, of bank notes and ornaments of high value, which seems to be cherished from the lower middle classes up to wealthy princes and zemindars can be counted upon as eventually being made available for the capital-market. Foreign capital for India has not been encouraged lately by the general state of affairs; the country has to be aware that a more rapid economic development, particularly one so largely agricultural in character is scarcely possible without the attraction of foreign capital. If foreign capital is to be dispensed with a slower speed of economic progress has to be accepted in consequence.

The demand which economic requirements of the country are likely to present to the investment-market may be roughly classified as follows:—

1. Government including requirements of the railways and the provinces, Municipal and Port Trust loans and those capital expenditures of the Central Government which lie in the direction of developing resources of the country, agricultural and industrial. Practically all New Loans issued by the Government in India are normally for productive capital expenditure, which if not by the Government would have to be supplied by the capital-market to private enterprises.

2. Banks and industry in form of shares of debentures. A better cultivation of a market for debentures is strongly to be recommended. Debentures should sooner or later replace the public's fixed deposits in Industry which are scarcely desirable. Debentures are in all Western countries a most legitimate and useful instrument for industrial financing and the critical attitude of the public and the banks in India calls for early revision.

3. Sooner or later, the market should be opened to mortgage bank debentures. The difficulties of organising safe and efficient mortgage banks will have to be dealt with under Rural Credit. They seem so great that it is not very likely that large issues of such bonds will be soon offered to the public but it is essential for the future welfare of the country that the capital markets, domestic and eventually foreign, become accustomed to this class of Indian investment.

The banks, if they can see their way to acquaint themselves more with financial transactions for industrial and similar companies, will have to study and cultivate the investment market more or less on the

lines which have been described as the German Banking System. Educational influence on the public with regard to investments requires much time and patient effort and has its limits. The banks—this cannot be sufficiently emphasized—can neither direct nor force and they certainly cannot by their own resources replace the capital market. If the country can or will not make hoardings or foreign markets available for those investments which supply the capital needs of industry and agriculture, neither the banking system nor the individual banks can be blamed for slow progress.

Industrial Corporation.

(*Industrial Bank*).

What is in the mind of so many contributors to the Banking Enquiry, that an Industrial Bank or even Industrial Banks should start and nourish new industries, big and small, urban and cottage, does not exist anywhere. What does exist which is at least similar to the ideal put before the Banking Enquiry?

Only in one country is there an industrial bank which to some extent seems to fit the model: the Industrial Bank of Japan, Ltd. A short paper is submitted on some principal features of that institution as gathered from an important Japanese gentleman in India who however had no possibility to inform himself profoundly on the subject. The Japanese experiment differs from the model because it does not try to finance small industries. According to the informant's knowledge, small industry is financed by co-operative organisations which sometimes receive long-term loans from the Post Office Savings deposits, which means from the Government. Japanese methods and experience ought to be studied more closely; but India ought to be very reluctant to adopt the Japanese system of all-round state aid in economic life which has still to prove its success. What has happened in Japan during the last few years? A temporary stoppage of payment by practically all banks, and the forcible interruption to which the whole economic life of the country has been subjected at various junctures, is a grave danger-signal.

There has always been a strong State and municipal activity in industry in Germany. While principally concentrated on Railways and public utilities, it has, especially since the War, extended to some industries. These are either of a monopolistic character or are a residue of State-aid to enterprises which, due to the after-effects of the War, were threatened by ruin and were considered as essential to general welfare of the country. Most of this state activity is done in the form of Joint Stock Companies, whose capital belongs to the Government and which are managed on a purely business basis, with a board consisting of Government Representatives and competent private business men, and with a management on the same lines as in other joint stock companies.

Although other Western countries are less inclined to state activity as commercial or industrial entrepreneur, still the state in some countries has more recently engaged in business and ventures beyond the operation of railways, though rarely outside of public utilities (gas, water, electricity, street traffic).

Those companies are entirely on private lines which under various titles act as Holding Companies for shares and bonds of mostly industrial character. One has to distinguish between Investment Trusts and specialised Holding Companies for which the title 'Managing Trust' may be offered. The Managing Trust is a holding company for

one specific industry with subsidiaries, with the object of ensuring competent supervision and assistance in the management, and to supply the capital in all varieties of financial transactions suitable to the public. These Managing Trusts are preferentially devoted to public utility companies and exist in all western countries, as for example the Electric Bond and Share Company in U. S. A. and the Sofina (an abbreviation for translated Industrial Finance Company for Electrical Enterprise) in Brussels. These trusts are, though finance companies, not banks nor administered or largely influenced by banks, they are clients of the banks doing industrial finance, like other industrial companies. While the Managing Trust concentrates on one industry, the Investment Trust's principle is to diversify investment. The resemblance to the Managing Agents of this country is striking, but not complete. The Investment Trust in its classical scrutiny relies on the possibility of cheap finance in the capital-market, the trust borrowing at a cheaper rate from the public in form of its own debentures and preference shares than the yield of the investment securities acquired and held by the trust. It is evident that the rate of interest in India is not and for some time it is not likely to be low enough to warrant the formation of investment trusts. This statement may suffice to answer the suggestions submitted in this respect to the Banking Committee. There are now many investment trusts in existence which are of a more speculative nature. They have, with not very pleasant results, tried to combine the interests of speculative shareholders in a joint venture, the Investment Trust buying such shares which are believed to have intrinsic chances in various fields. An abundant speculative capital-market is the origin, though scarcely a full justification of such trusts. The Investment Trusts are only so far connected with banks or bankers as they form an outlet for securities created in financial transactions for industry or in other fields. In Germany there exist several large Managing Trusts but no important Investment Trust.

It was necessary to demarcate the field for an Industrial Corporation in India. Independent of foreign models it seems necessary to eliminate two kinds of activities.

1. An Industrial Corporation which would, as the financial success is not assured and the company would almost certainly not for some time appeal to the private investor, have to be financed principally by the Government must not enter competitive fields of industry. It would be unfair and unjust if money of the Government would be used directly or indirectly to compete with private industry. For instance, no jute or cotton mill, no sugar factory or soap mill, etc., fields in which private enterprise is already active, must receive the Industrial Corporation's financial assistance. It would not even be beneficial from the point of view of the community at large because the artificially increased competition though giving employment in the new concern would create unemployment at other places.

2. Small industry must be avoided by the Corporation, because no competent management is imaginable for an unsystematic collection of industries. The failure of the whole instrument would be unavoidable.

Even when taking these precautions, a field remains for an industrial corporation, the capital of which is initially or permanently supplied by the Government. It is the field of pioneer enterprise of non-competitive character, the opening up of mineral resources and large public utilities principally electrical power schemes. In either kind of enterprise the capital required is so large and the intermediate stage, before profits can be made so extended that special assistance

may be required or useful. There the personal initiative and commercial business spirit, the immediate responsibility of the individual business man is less important than scientific management. The country at large, and less so special interests, is benefited.

The financing of an Industrial Corporation of this kind would indeed have to be done as suggested in the Banking Enquiry through a share capital and debenture issues. The proportion 2:1 for bond issue capital ought not to be exceeded. Financial Government assistance ought to take the shape of the Government acquiring the share capital, but the Government ought not to guarantee debentures. If Government supplies credit, it should be itself in a position to borrow at the cheapest rate and lend it cheaply. If this rule in state finance is not always adhered to, one certainly ought not to recommend it as a new venture. A company with the share capital in the hands of Government should give sufficient security to a debenture issue of twice the capital at least if the undertakings of the company are sound. In this way the company acts to a large extent under its own responsibility, which will help efficient management. The Government may welcome the opportunity of having Government undertaking entrusted to the form and management of a joint stock company which will do a part of the financing without Government liability.

An Industrial Corporation must have competent and independent management. The board would have to consist of first class businessmen and some Government officials; no private business interest, no local, no political influence must interfere. Only an All-India Corporation must be considered. Otherwise local and private interests will endeavour to get hold of the scheme, and if they succeed other local and private interests will at once push forward. The Industrial Corporation will run the danger of becoming a pandemonium of partisan struggle and incompetence.

Practical experience proves that a company with a certain purpose ought not to be formed without an immediate constructive object. As the saying goes, 'one ought not to buy the frame before the picture'. When some industrial plan fitting in the frame, as designed here, offers itself, then the time has come to start an Industrial Corporation.

The *cottage industries* strongly deserve cultivation, but what can be done by banks is in all countries comparatively little, and for industrial banking and finance the small industries can never be a field of activity. Banking business cannot go beyond a certain minimum size. The 'urban' co-operative organisation will have to be developed and may derive benefit from the experience of the respective German co-operative movement 'Schultze-Delitzsch'. While the corresponding co-operative societies in India are 3,757 with 675,000 members, with 3¼ crores of capital and 5¼ crores of deposits, the German organisation comprises in 1,375 societies somewhat over one million members, has capital and reserves of about 20 crores and deposits of about one hundred crores, which figures contain, however, not only small industry but also small traders and retailers. As mentioned in the memorandum on Commercial Banking, one of the large German joint stock banks is serving as their financial apex which should make the study the more interesting.

Some figures on the present state of Industrial Development in India.

The Provincial Reports of the Banking Enquiry have, according to the terms of reference of the Provincial Committees, not discussed

large industries at all, and in the evidence and examination of the Central Committee the large industries seem also to have been rather neglected. The following figures wish only to cover the larger industries conducted as joint stock companies.

The annexed three tables are therefore offered showing the fair extent of Indian Industry and seem to prove particularly that in those fields where the natural resources of the country call for an industrial activity, such as cotton, jute and tea gardens, industry has developed on a large scale and can with regard to size and quality match corresponding industries in western countries.

Table No. 1 shows a condensed extract from the statistics on joint stock companies in India. The statement showing 5,831 joint stock companies with 276 crores of paid-up capital excludes all companies with a capital in other currencies but rupees. The actual industrial activity in India is therefore considerably larger, and from the point of view of employment of the material and living substance of the country, enterprise belonging wholly or partly to foreigners is certainly to be counted in a summary of Indian Industry, but it is not done so in this statement.

Table No. 2 gives a compilation of industrial shares and bonds quoted on the Calcutta Stock Exchange. This statement shows essentially large industry because the shares of other companies would not be listed. It shows exclusively industrial enterprise, leaving aside bank and insurance shares, Port Trust securities and all bonds which are not of a purely industrial character. Here again shares and bonds in other denominations than rupee are excluded, to arrive as a result of the compilation at about 95 crores par value of common shares, 20 crores preferred shares and 11 crores of debentures.

Table No. 3, gives a still narrower extract of large industry by showing 385 industrial companies the capital of which is listed in Calcutta and whose management lies in the hands of larger firms of Managing Agents.

No. 1.

Joint Stock Companies in India.

From Government Publication No. 2212 (1930).

	1927-28. No. of Companies.		Paid-up capital (crores).	
Banking and Loan	1,363		23·2	
Insurance	86		2·2	
Transport	226		20·5	
Trade and Industry	2,948		161·1	
Cotton mills		289		40·4
Jute mills		61		16·5
Iron and steel		47		3·0
Tea and Plantations	575		13·0	
Mining	330		40·0	
Sugar	36		1·9	
Miscellaneous	267		14·7	
Total	5,831		276·6	

Distribution over the country.

	Banking and Insurance.		Industry.		Tea.		Miscellaneous.		Total.	
	No. of Companies.	Capital Crores.	No. of Companies.	Capital Crores.	No.	Capital Crores.	No.	Capital Crores.	No.	Capital Crores.
Bengal .	710	8·3	1,608	84·5	420	10·1	130	4·8	2,868	107·7
Madras .	336	3·1	263	8·0	27	1·1	32	0·4	658	12·6
Bombay .	74	8·6	681	82·3	4	0·2	48	8·9	807	100·0
U. P. & Delhi	34	0·5	199	12·2	2	·1	36	1·0	271	13·8
B. & O. .	16	0·1	64	1·4	3	..	1	..	84	1·5
Punjab .	29	0·9	150	1·5	..	..	8	0·9	187	3·3
Burma .	17	0·6	227	23·9	18	0·3	24	0·6	286	25·4
Central Provinces.	10	0·1	43	1·0	..	..	2	..	55	1·1
Assam .	34	0·1	37	0·1	55	0·6	7	..	133	0·8
Indian States	183	3·6	203	6·3	43	0·6	14	..	443	9·9
Others .	6	0·1	29	0·4	3	..	1	..	39	0·5
Total .	1,449	25·4	3,504	221·6	575	13·0	303	16·6	5,831	276·6

The 17th January 1931.

No. 2.

Indian Industry.

From the list of quoted shares and bonds on the Calcutta Stock Exchange.

1. Common shares quoted in Calcutta (par value):

		Crores of Rupees.	£
Bombay shares:	Cotton mills . . .	6·6	..
	Miscellaneous . . .	17·7	..
Calcutta shares:	Jute	11·1	1,875,000
	Tea gardens	5·4	..
	Coal	4·1	120,000
	Other industries . . .	34·1	1,500,000
	Transport	10·0	1,200,000
	Wool, cotton mills . .	4·8	..
		93·8	+ 4,695,000
2. 141 different Prf. shares with par value . .		20·5	+ 2,125,000 (8 companies).
3. 78 debenture issues for an amount of . .		10·6	+ 760,000 (4 issues).

Of the companies from the Calcutta district (not Bombay), the shares of which are quoted in Calcutta, 385 are managed by 36 firms of managing agents. The largest firm, *Andrew Yule and Co.*, managing not less than 54 (10 jute mills, 18 tea gardens, 14 coal companies, etc.) *Martin and Co. 22, McLeod and Co.* 17, *Gillanders Arbuthnot and Co.* 17, *Shaw Wallace and Co.* 16, etc. (specified list attached).

Of the 36 firms of managing agents 7 seem to be limited companies, the rest private firms, 6 firms may be regarded as specialists managing only in one trade. A firm like Duncan Bros. manages not less than 24 tea companies and one jute mill besides.

The activity of the managing agents is in fact much larger, the number of companies and private firms outside the Calcutta stock list being considerable. Andrew Yule and Co., for instance, are reported to manage altogether about 125 enterprises, including also Zamindari estates.

(Appendix to Indian Capital Market companies quoted in Calcutta.)

List of Calcutta Managing Agents.

Name of Managing Agent.	No. of Cos. managed.	Jute.	Tea.	Coal.	Electricity and engineering.	Transport.	Sugar.	Other industries.
1. Andrew Yule and Co.	54	10	18	14	..	3	1	8
2. Duncan Bros. . .	25	1	24	..	..	..	..	..
3. Martin and Co. . .	22	..	..	7	6	8	..	1
4. Octavius Steel and Co.	20	..	13	1	5	1	..	..
5. Begg Dunlop . .	17	4	13	..	..	..	..	..
6. Bird and Co. .	18	8	..	3	2	5	..	..
7. McLeod and Co. .	17	5	6	..	..	6	..	..
8. Gillanders Arbuthnot and Co.	17	2	5	3	..	6	..	1
9. Williamson Magor and Co.	17	..	16	1	..	..	..	..
10. Shaw Wallace and Co.	16	..	7	6	..	..	..	3
11. Jardine Skinner and Co.	16	4	6	4	..	..	..	2
12. Kilburn and Co. .	15	..	9	3	2	1	..	..
13. Davenport and Co. .	14	..	14	..	..	..	..	..
14. H. V. Low and Co. .	13	..	..	12	..	..	..	1
15. Balmer Lawrie and Co.	12	..	..	2	5	..	..	5
16. F. W. Heilgers and Co.	11	2	..	8	..	..	..	1
17. McNeill and Co. .	10	1	..	8	..	..	..	1
18. Killick Nixon and Co.	9	..	..	..	2	7	..	..
19. Begg Sutherland and Co.	8	..	..	..	1	..	5	2
20. Villiers Ltd. . .	6	..	3	3	..	..	..	..
21. Kettlewell Bullen and Co.	6	2	1	..	..	..	..	3
22. Geo. Henderson and Co.	5	2	3	..	..	..	..	..
23. Birla Bros. . .	4	1	..	..	..	..	..	3
24. Jas Finlay and Co. .	4	1	3	..	..	..	..	..
25. Thomas Duff and Co.	3	3	..	..	..	..	..	..
26. Other Firms (11) .	26	6	6	4	6	3	..	1
	385	52	147	79	29	40	6	32
No. of all respective companies as quoted.	..	53	160	81	50	44	..	..

Industrial Bank of Japan Ltd.

1. Established 1902.

2. As Joint Stock Bank (General Public as Shareholders).

3. Capital paid-up: Yen 50,000,000 (just about equivalent of £5,000,000)

Reserve: Yen 19,265,000.

Bonds issued: Yen 265,074,627 (outstanding) against which

4. Bank's Investment: Bonds and Stocks Yen 38,770,823; Fixed term loans Yen 276,133,280 (Fig. June 30, 1929.)

5. Their investments are in Loans, Discounted bills, etc., chiefly on Factories, Mills, Shipping with securities in—

1. Factories including land and machines as securities, under special registry law in Japan.
2. Bonds and Stocks of Industrial concerns.

6. Directorate and Governorship by the appointment of the Government with terms of 4 years. (The reason why fixed period is 4 years is that appointment of the Governorship should be outside of the influence of any political party).

7. Special privilege: Bond issue with certain proportional ratio restrictions against their capital (and investment?), maximum period of Bonds 50 years.

8. Bank has technical department in which technical experts investigate as well as inspect the factories and mills; the Bank is investigating before as after the investment.

9. Government Loans from the public in shape of Postal Saving in December 1928 were Yen 1,798,300,000. The Government invests part of the money it receives as Postal Saving in "Industrial Bonds" of the Bank also, when the demand for the bonds with the general public is insufficient.

ENCLOSURE III.

FOREIGN TRADE FINANCE—EXCHANGE BANKS.

Data are already available on the volume of foreign trade to be financed, on number, size, nationality and relative importance of the various Exchange Banks operating in this country. These facts are considered to be familiar, and so is the technical working of foreign trade finance as handled by those banks. The Exchange Banks are all banks with head office outside of India. They have all their capital in other currencies than rupees. It seems appropriate for experts to investigate the question whether and what kind of dangers and eventually what advantages there are in this activity of the foreign banks.

Criticism in India as in every other country could take the following direction:—

(1) Efficiency,

(2) National policy,

(3) Competition.

1. (*a*) Is the foreign trade of the country fully financed? It can scarcely be disputed that in India the facilities are equal to the volume of such trade and indeed that they are sufficient for a considerably larger volume. Increased trade with countries outside of the British Empire has attracted a number of strong banks from those countries.

(*b*) Banking facilities may be too expensive. In India keen competition between Exchange Banks of different origin has had the effect of securing decidedly cheap rates. Such competition has certainly proved to be very helpful for the trade of the country.

(*c*) Specialised financing of foreign trade may lead to neglect of inland trade. In India, as in other countries of similar structure, Exchange Banks have, under the pressure of competition, extended their activities to financing the collection of export goods and distribution of import goods.

The answer to the enquiry into the efficiency of Indian Foreign trade finance cannot be otherwise than favourable.

2. In every country banking is expected to assist on the development of trade as national institution. (*a*) There is a natural suspicion that foreign banks might tend to discriminate against national goods or national merchants. The Banking Enquiry has heard much criticism in this direction, which has been strongly disputed by the Exchange Banks themselves. We have, of course, within the short time at our disposal not been able to investigate these complaints fully, but we have not gained the impression that there is intentional discrimination against Indian merchants. It is however not inconceivable that a foreign bank, despite its being thoroughly established in India, is sometimes not in as good a position to cultivate the Indian customer as a strictly Indian bank might do. Adaptation to the needs of the country served, together with the competition between foreign Exchange Banks, seems to have helped to alleviate this grievance. If the Imperial Bank would be also in a position to do foreign exchange business it would be a further stimulant for the Foreign Banks to assist the Indian merchants and thereby satisfy a widespread sentiment. The question of removing the legal restriction of the Imperial Bank has been alluded to by the experts in reviewing commercial banking. It is to be hoped that the early establishment of a Reserve Bank will enable the Imperial Bank to enter this business. In addition Joint Stock Banks can establish foreign connections, useful to their

clients, without building up a full business of foreign exchange. (*b*) From the national point of view it may be urged that banking in the hands of foreign firms does not give as much employment to Indians as would be the case with purely Indian banks. Apparently the number of Indian employees with the foreign banks is increasing, particularly where the banks extend their activity into the interior. The policy is to be encouraged. (*c*) Another national argument against foreign banks is directed against the use of deposits collected in the country for outside banking purposes. For India this criticism is not justified as the Exchange Banks use their funds in the normal course for the purpose of financing Indian trade and thereby drawing considerable seasonal funds from abroad. The exchange risk works everywhere in this direction; for India especially the higher rate of interest, compared with the countries from which the Exchange Banks originate, is a sufficient safeguard. The profits of the Exchange Banks leave the country in the form of dividends. They are in payment for the employment of foreign capital, which is used by India as by many other countries in large amounts and, generally speaking, should be rather attracted than discouraged.

3. There is the criticism that foreign banks by their competition render the development of national banking institutions more difficult. It can scarcely be denied that the Exchange Banks because of their resources and experience are strong competitors. It is, however, doubtful whether Indian banks could replace the foreign banks considering the large capital and international connections of the latter. The financing of foreign trade is essentially international. Foreign trade is co-operation between two countries, the exporting and the importing. A considerable proportion of the foreign trade of India will always be a foreign affair and correspondingly of the banking service.

Under the aspects as outlined the experts arrive at the conclusion that the benefit which the trade of the country derives from the existence of the Exchange Banks largely exceeds the actual and sentimental disadvantages. The country has the resources of some of the strongest institutions of the world at its disposal for a form of international finance which requires strong capital and connections. There is no reason why the foreign banks, from the very reason of their existence and under the pressure of competition, should not be interested in developing the country's trade whether in India or elsewhere. The experts recommend, however, to the Exchange Banks that the fullest consideration should be given to Indian sentiment which is in no way unnatural. They recommend that all possible business with Indian firms should be cultivated and the employment of as large a proportion of an Indian staff as is compatible with business principles in a field which requires international education and experience.

The experts do not recommend that the competitive argument against the Exchange Banks should be allowed to influence the decisions of the committee. The facilities granted by the Exchange banks are far too valuable for the trade and thereby for the development of the country to dispense with them or to curtail their activity.

From this general view the experts cannot recommend those measures which have been suggested to the Banking Enquiry Committee about regulation of banking with special regards to the Exchange Banks. Their opinion on the principal suggestions put forward is the following:—

(1) The experts do not advocate a system of licence. It may, under safeguards be acceptable to the existing Exchange Banks, as it may

serve the exclusion of further competition by foreign banks. The experts do not for the present recommend any restriction on such competition. The country should enjoy all the banking facilities which are, or can be made, available. They are, however, under the impression that there is no need for further foreign banking facilities in the near future. The licensing system might be desirable if banks of insufficient capital or standing were working in the country or were likely to do so; as it is, it seems unnecessary.

(2) Limitation with regard to taking deposits seems unnecessary because the exchange banks according to the figures submitted by the Secretary do not attract an undue percentage of private deposits. There has been practically no change in the respective shares of the Imperial Bank, Joint Stock Banks and Exchange Banks from 1919 to 1928 according to the Secretary's summary. Interference with the Exchange Banks of Indian deposits would curtail the banking facilities of the country for the reasons outlined by Mr. MacDonald quoted in the Secretary's summary, page 41. Special tax on deposits would be an act of official discrimination to be deprecated on general grounds; in any case it would possibly be ineffective.

(3) A compulsory formation of rupee companies for the Indian business of the Exchange Banks would have no practical effect with the exception of creating a Board of Directors in India. The rupee capital of the new company would of course be smaller than the present one of the mother institution. To give the Indian depositor the first charge on the Indian assets is not compatible with international law and would result in a shrinking of the outside resources of the Banks which are now at the disposal of Indian business.

(4) The Exchange Banks have been criticised for imposing non-Indian Insurance on Indian merchants for imports and exports serving as security for credit facilities from the Exchange Banks. Legislative measures are considered by the experts as impracticable. A bank must be able to decide about the security for advances against goods, and interference will tend to reduce facilities. But the experts recommend that the Exchange Banks in this matter should give full consideration to the need for the progressive development of Indian business and should deal with Indian Insurance in a sympathetic manner.

(5) An Advisory Council of each Exchange Bank in India may be useful for the banks, but is likely to attract important merchants to such Councils. This might prove to be to the disadvantage of other banks.

(6) Fuller statements of the Exchange Banks about their Indian business than at present would probably be prescribed by a Reserve Bank which in other countries organise the regular publications of banks on a common basis which is now lacking.

(7) Finally, the suggestion of establishing a special Indian Foreign Exchange Bank, requiring a large share-capital, might prove to be more in competition with the Joint Stock Banks and the Imperial Bank than with Exchange Banks. This institution would in practice not be able to concentrate on foreign exchange business and would have to encroach upon the field of other Indian Banks. The experts see no objection to a new Indian bank of such a nature coming into existence with private initiative and capital, but deprecate state-aid for such purpose.

ENCLOSURE IV.

The Money Market in India.

According to the unanimous opinion of all who have expressed their views on the subject, the Indian money market shows several defects. It cannot be compared with the highly developed money markets in western countries.

As a matter of fact, two money markets exist in India, the Central Money-Market and the Bazaar Money-Market. They have their own agencies and different rates of interest without sufficient co-ordination.

The Central money-market is to a large extent dominated by the Government, which controls the currency and exercises a decisive influence on the bank-rate.

The control of currency and of credit in India is in the hands of two distinct authorities, the Central Government and the Imperial Bank. This system results in a serious lack of elasticity and stability of monetary conditions; the fact that the annual range of interest rates in India is wider than in other countries proves the defects of the present system. A range of 3 per cent is quite ordinary in India, and this must have a detrimental effect on the economic life of the country.

It seems to have been accepted as an axiom that seasonal monetary stringency is inevitable and that this stringency must bring about such wide ranges of interest rates as are experienced.

In our opinion this conception is wrong. It is one of the tasks of a properly managed and well organised Reserve Bank to tide over busy periods when money is in strong demand without unduly raising the bank-rate. The absence of a mechanism, which by expanding credit can meet the seasonal demand for money, is mainly responsible for the variations in the bank rate.

In this respect the position of the Imperial Bank ought to be considered. This, the largest and most important bank in India, is a hybrid institution. It is the Government banker and in connection herewith its task is limited by law. The most important restriction consists in its being shut out from foreign exchange business. The bank acts as the bankers' bank without having the right to issue bank notes as the currency is controlled by the Government. This results in the Government practically dominating the bank-rate and the money-market.

The restrictions imposed on the Bank's activities do not prevent it from being the strongest commercial bank in the country.

This dual position of the Imperial Bank has several detrimental consequences. As stated already, the control of currency and the inland credit giving are in the hands of two distinct authorities.

The Imperial Bank has no concern with the international position of the monetary unit of the country. It has some of the privileges of a Reserve Bank, having the free use of Government balances and acting as the Bankers' Bank, but it does not perform the task of a Reserve Bank. Being primarily and mainly a commercial bank and having no responsibility for the supply of currency, it has no inducement to carry such strong cash reserves during the slack season that it is in a position to tide over stringency of money during the busy season without unduly raising the bank-rate.

It invests large amounts (at the present moment about 57 per cent of its credits to the business life of the country) in Government securities whilst trade and industry have to pay high interest rates as a result of the bank-rate being raised. If a Reserve Bank existed in India, it would be the task of that bank to keep during the slack season the cover in gold and gold securities of its sight liabilities at a high percentage of 50 per cent more in order to be strong enough to increase its credits during the busy season and accommodate business at a moderate rate of interest.

The Imperial Bank uses as safeguard the emergency currency which it is entitled to borrow—to a maximum of 12 crores—from the Government if and in so far as its cash reserve is insufficient to expand its credits. It relies upon this safeguard and can therefore keep its own cash reserve at a comparatively low level. No loan, however, may under the present regulations, be made until the Bank rate rises to 6 per cent, whilst the entire amount outstanding at any time bears interests at Bank rate subject to a minimum limit of 6 per cent for the first four crores and of 7 per cent for the subsequent eight crores. The Reserve Bank would have no Government help to fall back upon but would have to rely upon its own reserves and thus be compelled to keep sufficient free reserves for supplying the country with the currency needed during the crop-moving season.

By way of illustration it may be mentioned that on the 31st of March 1930 the liabilities of the Reserve Bank under the Bill of 1928 would have been about 217 crores. The minimum cover in gold and gold securities would have been 40 per cent or nearly 87 crores. The Government would have had to transfer gold and gold securities to the Bank to an amount of 50 per cent or 108½ crores, so that even without having increased this percentage of 50 per cent during the slack season, the Bank could have accommodated the country with currency to an amount of $2\frac{1}{2} \times 21\frac{1}{2}$ or $53\frac{3}{4}$ crores before the minimum cover would have been reached. Assuming that no action to raise the bank-rate would have been deemed necessary before the cover in gold and gold securities would have decreased to 45 per cent, the Bank could have issued emergency currency to an amount of 25 crores.

No criticism whatever is meant by the above against the action of the Imperial Bank. On the contrary, we are of opinion that the Bank fulfils its task in an admirable way and that its shareholders would have well-founded reasons for complaint if the Banks' management followed the policy of a real Reserve Bank. It is the system, not the Bank's policy, that is wrong, and the sooner this system is changed and the Reserve Bank constituted, the better it will be for the country and its banking organisation.

As is well known, the Government of India prepared a Bill to establish a gold standard currency and to constitute a Reserve Bank. This Bill, however, has not been passed into law.

We think it one of the principal duties of the Central Banking Enquiry Committee to recommend that a Reserve Bank should be established in India as soon as possible and that this institution should be free from political influence.

The main tasks of the Reserve Bank would be:—

(*a*) To keep the currency of the country at par with gold, in any case at a value between the upper and the lower gold point,

(*b*) To control as far as possible the credit situation and the rate of interest at which short-term credit will be available for trade and industry.

In regard to the first task, the provisions of the bill may be deemed satisfactory. In addition to the obligation to buy and sell gold and gold exchange, the bank will be allowed to purchase from and sell to scheduled banks *and persons approved by the Board of Directors of the Bank* the currencies of such gold standard countries as may be specified in this respect by the Governor-General in Council, and bills of exchange (including treasury bills) drawn in or on any place in any such country and maturing within ninety days from the date of such purchase; and to keep balances with banks in such countries.

Moreover the bank will be entitled:

To purchase and sell securities maturing within five years from the date of such purchase, of the Government of any gold standard country as mentioned above;

To open an account with and act as agent or correspondent of any other bank which is the principal currency authority of a gold standard country under the law for the time being in force in that country or any of the Federal Reserve Banks in the United States of America.

These provisions will enable the Reserve Bank to build up a strong position in foreign exchange and foreign securities which the bank can sell if, and so far as necessary, to strengthen the international value of the Rupee.

The stipulations in the Bill with regard to the second task seem to us less satisfactory. We refer to the Bank's influence on the inland credit situation and on the rate of interest at which short-term credit will be available for trade and industry.

With exceptions, which will be mentioned hereafter, the inland credit giving business of the Bank will in general be confined to:—

The purchase, sale and rediscount of bills of exchange and promissory notes, drawn and payable in India and arising out of *bona fide* commercial or trade transactions bearing two or more good signatures, *one of which will be that of a scheduled bank*, and maturing within ninety days from the date of such purchase or rediscount.

The making of loans and advances, repayable on demand or on the expiry of fixed periods not exceeding ninety days against the security of:—

Stocks, funds and securities (other than immovable property) in which a trustee is authorised to invest; Gold coin or Bullion, or documents of title to the same;

Such bills of exchange and promissory notes as are eligible for purchase or rediscount by the bank.

It follows from the above that apart from the loans or advances against securities and gold coin or bullion, the Reserve Bank's business will depend on the demands for credit by the so-called "Scheduled Banks". The term "Scheduled Bank" means a bank included in the First Schedule to the Bill.

The following exceptions to this rule are allowed :—

(*a*) For the purpose of financing seasonal agricultural operations or the marketing of crops, bills of exchange and promissory notes of not more than six months' maturity, may be purchased or rediscounted to a limited extent, which bear as one of the signatures that of a *Provincial Co-operative Bank* instead of that of a scheduled Bank;

(*b*) During the first five years loans and advances may be made against promissory notes of any scheduled bank or a *Provincial Co-operative Bank*, supported, by documents evidencing title to goods which have been transferred, assigned, hypothecated or pledged to any such bank as security for a cash credit granted for *bona fide* commercial or trade transactions, or for the purpose of financing seasonal agricultural operations or the marketing of crops;

(*c*) When, in the opinion of the Board of Directors of the Bank, it is necessary or expedient that such action should be taken in the interests of Indian trade or commerce, or for the purpose of enabling the bank to perform any of its functions, the bank may purchase, sell or discount any bills of exchange or promissory notes drawn and payable in India and arising out of *bona fide* commercial or trade transactions, bearing two or more good signatures and maturing within ninety days.

The question arises whether these provisions will enable the Reserve Bank to exercise full influence on the internal interest rate and to prevent undue increase of that rate during the busy season. We doubt whether this will be the case.

In the first place, attention may be drawn to the fact that no well-developed and extensive bill-market exists in India and that it will take years before such a market can be created. As the experience with regard to the loans from the Paper Currency Department to the Imperial Bank has shown, the amount of trade bills which are available as securities for these loans is insufficient. Notwithstanding the efforts of the Imperial Bank to create bills against its outstanding credits, it was often impossible to borrow, within the limit of the maximum of 12 crores, the money that was wanted to meet the seasonal demand. As compared with loans and cash credits, the inland bills discounted and purchased form only a small item among the assets of the Imperial Bank. It seems, therefore, very likely that the Reserve Bank, in so far as its business is limited to the purchase and discount of bills and promissory notes arising out of *bona fide* commercial and trade transactions and bearing two or more good signatures, will not be able to provide the country on the basis of such bills and pro-notes with sufficient accommodation to tide over the periods of strong demand for money.

In the second place, it ought to be emphasised that the position of the scheduled banks under the bill will be so strong that it is not inconceivable that they will, much more than the Reserve Bank, decide upon the level of the interest rate. During the slack season the position will be that there will hardly be any business for the Reserve Bank to do, whilst on the other hand in the busy season, as soon as the scheduled banks will have to apply to the Reserve Bank for credit help, they will probably raise their rates. The result will be that

fluctuations in the interest rate, as result from the present system, will continue.

These considerations bring us to the conclusion that the Reserve Bank should be given the opportunity of making loans and advances on the security of movable goods, wares and merchandise besides the warehouse warrants or warehouse receipts representing the same.

To avoid misunderstanding, it may be added that the Reserve Bank need not necessarily avail itself of this opportunity to a large extent; the mere fact that the opportunity exists will enable the Bank to exercise a strong influence on the level of the rate of interest.

In this connection we would point out the following considerations, which form the introduction to the further measures which, in our opinion, should be taken with regard to the money-market in India.

As stated above, no elastic and well provided bill-market exists in India. This is the result, not of lack of organisation, but mainly of the fact that for the time being the fundamental conditions for such a bill-market are lacking. We need not go into details in regard to this subject, since it is generally agreed upon that it will take time before these conditions will be fulfilled. We must face the facts, and since the facts in this respect are that preparatory work of several years will be needed to educate the financial and business community of India in order to make it ripe for a real and highly developed bill-market, we must try to achieve our aim in a way which will meet the present conditions of the country.

This method is in our opinion to develop, extend and improve, as far and as soon as possible, the system of credit giving against the security of movable goods, especially of the products of the country. As long as credit instruments, which are based on personal standing, confidence and knowledge are not available to such an extent as is necessary to finance business and trade, the deficiency must be filled up by basing the credit system on the security of valuable and liquid assets as bonds, shares and movable goods. This has been the experience in other countries. As a striking example, we may point to the Dutch East Indies, where no money market and no inland bills exist. With a few exceptions the whole inland credit-system in that country of both the Reserve Bank (Java Bank) and Commercial banks is based on the making of loans and advances against the security of stocks and funds, goods, wares and merchandise, coin and bullion, besides the warehouse warrants or warehouse receipts representing the same. Moreover, the commercial banks grant credits to sound plantations during the crop growing time against security of the crops.

It follows that the Java Bank does not act as a bankers' bank in the strict sense of the word. This would be utterly impossible under the prevailing conditions since the bank would be unable to exercise any influence on the interest rate in the country and would be compelled to restrict its task to that of an exchange bank without being able to co-ordinate its foreign exchange business and its inland credit giving.

Under the present system, the Java Bank is in a position to stimulate inland trade, to provide cheap credit, which results in better prices for the products of the country, to expand its credits in order to tide over periods of stringency or to restrict its credits in order to strengthen the international position of the currency. This system works most satisfactorily because it suits the conditions of the country and the stage of development of its population and its business life.

It is not artificially built up on the example of foreign countries where circumstances are quite different. It has grown gradually in the course of the century, during which the Java Bank acts as the bank of issue of the Dutch East Indies. The interest rate for short-term credit is moderate—at present 4½ to 5 per cent—and this rate is usually maintained at the same level during the busy season.

This survey leads to the conclusion that considerable improvement of the credit situation and the money-market in India can only under present conditions be achieved by improving and extending, as far and as soon as possible, the storage and warehousing of goods in order to enlarge the basis of the credit system.

It seems premature at the present stage of our work to enter into details. If our view might be accepted, a scheme could be devised in connection with the needs of the marketing system, since both credit system and marketing are involved.

The ultimate aim would be, in our opinion, to cover the country with a widespread network of warehouses or godowns, adapted as much as possible to the requirements of the various parts of the country; the establishment and management of these warehouses should, as far as possible, be in the hands of one big private company with agencies in a gradually growing number of marketing places. The warehousing system should be linked to the railway system; arrangements should be made for grading the products stored in the warehouses according to their quality.

The warehouse receipts issued by the company would be negotiable instruments of title which can safely be accepted by banks and bankers as collateral for credits.

If such an organised and well managed system of warehousing could be established, an instrument would be created which suits the needs of the country better than under present circumstances the bill of exchange or promissory note can do; these instruments would form media between the different parts of the present credit and banking organisation; they would enable the Reserve bank to make its policy with regard to inland-credits effective and to tide over periods of stringency in the money-market.

The great problem in respect of the money-market under present conditions in India is to create an instrument which is acceptable to all parts of the banking organisation, which is not exclusively dependent on the standing and respectability of the borrowers, which represents a real value in non-perishable, readily saleable, goods. This can only be achieved by establishing a warehouse system as advocated above, and therefore the forces of Government and business life in India should be concentrated on the construction and development of such a system.

Apart from this aim, measures to stimulate and extend the use of bills ought to be considered. As stated in several reports, the use of *Muddati* Hundis has diminished in the course of time. Considerable difference of opinion on the causes of this phenomenon exists.

As such reasons are mentioned:—

the development of the cash-credit system which is said to have unfavourably influenced the use of bills;

the reluctance of banks to discount these bills as freely as before, without the reasons for this reluctance having been mentioned; and

the high stamp duty.

However this may be, it seems of greater importance to devise remedies than to enter into discussions on historical development.

It ought to be emphasised at the outset that genuine trade-bills as would be eligible for purchase or rediscount by the Reserve Bank, can only be created if producers and traders are prepared to sell on credit. The distinction between trade-bills and finance-bills is of the greatest importance, and the information which we gathered seems to point at great difficulties experienced by purchasers of bills in endeavouring to distinguish between these two classes of paper.

The establishment of the Reserve Bank must also in this respect be considered the first and fundamental measure for gradual improvement and extension. The published rate of the Reserve Bank should be the discount rate for genuine first class trade bills and loans even against Government securities should have to pay a somewhat higher rate. The popularity of the bill of exchange or *hundi* would be increased since an inducement for trade and banking would be created to foster the bill-market.

The stamp duty on usance bills should be reduced if the contention that the duty is excessive would prove to be correct; uniformity of this duty for all parts of India should be advocated.

The importance of furthering the issue of vernaculars and of the standardization of that use has already been emphasised in the memorandum on commercial banks.

All these means may be useful, but it must be realised that considerable improvement can only be achieved if and in so far as on the one hand the existing prejudice against the rediscounting of bills could be removed and, on the other hand, the necessary educational work meets with success.

The prejudice seems to exist with the indigenous bankers and also with joint-stock banks. They regard it as a sign of weakness to rediscount their bills. We think it hardly conceivable that their prejudice could last a long time after the constitution of the Reserve Bank. The fact that even the Imperial Bank will avail itself of the rediscounting facilities of the Reserve Bank will, in all probability, dispel the prejudice.

The educational work will certainly take a much longer time. This work must aim at creating the knowledge and confidence which in western countries, especially in England, are the foundations of the bill-market. This knowledge and confidence are lacking with regard to the genuine character of the bill and the financial standing of the signatories to the bill. It seems to us that the initiative to improve this situation must be taken by those who are in the position to create bills and who want to sell or discount these bills. They, the producers and traders, must come to the conviction that they serve their own interests by disclosing their real financial position to their banks. If they act in accordance with this conviction and an inducement, as advocated above, is created by the Reserve Bank for the use of bills, a gradually growing number of first class trade bills will come forward. The Reserve Bank and the commercial banks will then, in due course, have to decide whether a further step should be taken by raising the interests on cash-credits in current-account to a higher level than the rate for such credits for a fixed period of two months.

Perhaps the most important, but at the same time the most difficult, measure would be to extend the working sphere or in any case to

improve the banking standing of those who may be considered as the original operations in the *hundi* market, the indigenous bankers.

Not much is known of this class of the banking community, but it cannot be doubted that their work in financing agriculture, internal trade and small industries is of great value to the interest of the country.

With regard to the position of this class of businessmen, it must be concluded that in several parts of India their position is weakened as a result of the spread of more modern banking methods.

It has been experienced in most countries that the influence and the working sphere of the private banker has diminished as the commercial banks penetrate into the country. This natural course of events will continue in India, but it will spread over many years to come and it seems not unlikely that, even apart from the influence of the present world crisis, the process will be slackened. It may be pointed out in this respect that after the Reserve Bank will have been started and the Imperial Bank will be converted into a purely commercial bank, the Government will not any longer have the opportunity of compelling this bank to establish new branches in places where no fully remunerative business can be found. The number of places which offer the possibility of remunerative business for branch banking will grow very gradually.

All things taken together, it must be expected that the country for its banking accommodation will need the indigenous bankers during a great many years and such the more since a part of the large field, which is covered now by the money-lenders, may in future be opened to the indigenous bankers.

We think it, therefore, of the greatest importance for both the general interest and the indigenous bankers to strengthen the position and to raise the standard of these bankers. This can only be done with the co-operation of themselves. They will have to adjust their position to the changed circumstances and they will have to decide upon the direction which they want to follow.

The first requirement would be that a clear distinction be made between their banking business on the one hand and their trade and other activities on the other side. They can either give up their trading and other occupations than banking, or they can give up their banking. A third possibility the transformation of their trade-department or their banking-department or both into separate companies in the form either of a joint-stock company or a *Kommandit*-company—has already been discussed.

We are not in favour of compulsory measures with regard to the indigenous bankers. They should establish or reform their own associations, which would have to make regulations with regard to rates of interest, publication of balance-sheets and profit and loss-accounts, proper book-keeping and auditing, and in general have to take all those steps which seem appropriate to raise the standing and improve the banking methods of their members.

A close contact should be established between these associations and the Reserve bank in order to enable the latter to influence the policy of the former in the interest of their members and of banking in general.

The membership of an association as we have in view would greatly raise the standard of the indigenous bankers and would inspire the public with confidence to entrust their money to these bankers. This

undoubtedly would develop the banking habit, attract deposits and reduce any hoarded capital.

If these lines could be followed, and if the individual indigenous bankers are prepared to disclose their financial position to the banks with which they do their business, it may be expected that the conditions for an extension of the bill-market will be created. Their knowledge of local conditions and of the trade transactions, which must form the basis of good bills, the confidence which their signature on the bill will inspire, will induce commercial banks to discount their bills more freely than at present. They will be the agency through which the financial transactions of inland trade may be moulded to a higher degree than at present in the form of bills. They will thus provide the banking community with a gradually growing number of indigenous bills, which may be rediscounted by the commercial banks and eventually by the Reserve Bank, whilst we think it advisable that the Reserve Bank should establish direct relations with and grant rediscount facilities to those indigenous bankers who have complied with the desiderata already explained and whose financial position satisfies the Bank's requirements.

In the above no mention has been made of the introduction of rupee bills in connection with the import trade of India. At the present stage we consider the improvement of the inland bill and money-market as the fundamental and primary problem. This problem must be solved before progress to an appreciable extent can be expected in the use of rupee bills for settling foreign trade transactions. The question, as to in what currency the bill will be drawn in, forms part of the conditions which have to be agreed upon by buyers and sellers. It needs no comment that they will try to find the cheapest solution. Under normal circumstances the currency of that country will be preferred where the lowest rate of interest prevails and the money and bill-market is so well developed that no doubt can exist about discount facilities being available at any time during the currency of the bill. These conditions are lacking in India. As long as this is the case, trade and industry will be hampered and the cost of imported goods raised by enforcing sellers of foreign goods to draw rupee bills.

ENCLOSURE V.

Banking Regulation.

The existing banking regulations are embodied in the Indian Joint Stock Companies Act which governs Indian Joint Stock Companies in general and moreover contains some special provisions with regard to banks.

In the first place, therefore, the question arises whether this system improved and amplified as far as necessary should be maintained or a Special Bank Act should be created. We would prefer the first solution which is simpler and can in our opinion meet all requirements. It should be emphasized that too many legal restrictions will hamper the useful sphere of activity of banks and may thereby make them unpopular.

In the second place, it may be pointed out that no banking regulations can prevent unsound management, losses and failures. The full responsibility ought therefore to be left with the management and the Board of Directors and no measures should be taken which would weaken that responsibility.

The Articles of Association which form the constitution of a bank's business ought to be framed with great care in order to prevent as far as possible abuses and activities which are outside the scope of sound banking. It is suggested that the Registrar of the Joint Stock Companies should scrutinise these Articles of Association with great care. If he finds that they do not contain satisfactory safeguards or if they allow business other than banking, he should refuse registration until they have been properly amended. The Registrar should be given the necessary powers to act accordingly. Share-holders of the existing companies also should examine their Articles of Association with a view to ensure that they are on a proper basis.

The experts place great importance on the necessity of sound auditing but they do not consider that any special form of Government inspection would serve a useful purpose or be any greater safeguard than the present system of auditing by authorised accountants. If it is felt that some of the existing firms of accountants are not sufficiently reliable to be entrusted with the work of auditing the accounts of a bank, then some form of regulation based on the Canadian System may be adopted (a paper on the Canadian System is appended). The experts feel, however, that the strengthening of the Companies Act with regard to auditing, so that the Auditors must make a report and be responsible for its accuracy, is all that is required.

Finally, we feel that the Reserve Bank will be able through its position and aided by a Bankers' Association to so influence the policy of other banks that detailed legal restrictions will be unnecessary.

Of the suggestions made to the Central Banking Enquiry Committee, two appear to call for special comment:—

(i) the question of the Exchange Banks, and

(ii) the definition of the word "bank" or "banker."

(i) The position of the Exchange Banks has already been fully discussed under Finance of Foreign trade.

(ii) The definition of the term "bank" or "banker" is well nigh impossible in India. It could not be made without excluding many firms or individuals, who are at present doing a considerable portion of

the financing of the country. If such a definition were made by law, it might well damage the credit of these, cause public alarm and thereby impair the trade of the Nation. Such definition therefore should not be attempted. It is proposed, however, that the term "Member of the Central Bankers' Association' be invented. Every bank or indigenous banker whose bills the Reserve Bank decides to accept should have the right to use this title provided they undertake to abide by the rules of the Association.

The objects of this proposal are:—

(i) To invent a new title, the prestige of which is well worth having without in any way damaging an existing institution,

(ii) To encourage Indigenous Bankers to adopt modern methods,

(iii) To enhance from the outset the power of the Reserve Bank and to make it impossible for business jealousy to prevent any eligible firm from attaining the right of joining in the Central Banking Association.

The other proposals which have been placed before the Central Banking Enquiry Committee may be divided into five separate groups:—

(i) Those which would hamper free competition and the development of banking and which ought not to be adopted.

(ii) Those which should be adopted and which necessitate amendments in the Indian Joint Stock Companies Act.

(iii) Those which are relative to the subjects that ought to be left to the control of the Board of Directors and the supervision of Auditors.

(iv) Those which ought to be met by the Articles of Association and the supervision of the Registrar of the Joint Stock Companies before registration.

(v) Those lying within the purview of the Reserve Bank.

We deal hereafter only with the last four groups.

Proposals which necessitate amendments in the Indian Joint Stock Companies Act.

(*a*) The Act should give the powers of the Registrar to refuse the registration of banks whose Articles of Association are not in accordance with the law;

(*b*) these Articles must prohibit other activities than banking;

(*c*) the Articles of Association shall contain provisions in conformity with the respective proposals mentioned hereafter (see proposals which ought to be met by the Articles of Association);

(*d*) The authorised capital of a bank should not be more than double the subscribed capital; the paid-up capital should not be less than 50 per cent of the subscribed capital;

(*e*) A provision should be inserted with regard to auditing on lines similar to clause 5 of section 55 of the Dominion of Canada Act of 1923. No remuneration of auditors should be valid unless fixed at a general meeting of the share-holders;

(*f*) A provision should be made by which auditors and officers of the bank would be rendered liable for omission to state material facts in their reports and in the presentation of the accounts of the bank;

(*g*) Protection of banks against frauds in connection with Trust receipts; any such fraud should be made a criminal offence;

(*h*) Articles of Association of all Joint Stock Companies should be published in the official Gazette.

(*i*) The law should permit a temporary moratorium on the recommendation of the Reserve Bank to prevent compulsory and too rapid liquidation of a bank, which is in difficulties;

(*j*) Provision for the appointment of a committee of inspection on the lines of the English Companies Act, 1929, in the case of the liquidation of a bank;

(*k*) In the case of compulsory liquidation safeguards should be given to the creditors on the lines of the English Companies Act. Compulsory liquidation should be under the supervision of the district court. The power to order transfer of winding up proceedings from one province to another should be given to the Governor-General in Council on the recommendation of the Reserve Bank. The question of the costs of liquidation should be dealt with by the courts and delinquent directors or officers of the bank should be prosecuted at public expenses.

(*l*) Directors and Auditors shall be liable for negligence in discharge of their duties.

Proposals relative to subjects that ought to be left to the control of the Board of Directors and the supervision of Auditors.

(*a*) Provision for adequate reserves.

(*b*) The form of the balance sheet and profit and loss account.

(*c*) Loans to a limited company, a director of which is also a director of the bank or to a limited company in which any of the banks' directors are members of the managing agents' firm.

(*d*) Valuation of investments and doubtful or bad debts.

Proposals which ought to be met by the Articles of Association.

(*a*) Prohibition to advance any loan on the security of the bank's own shares.

(*b*) Limitation of loans granted to managers, staff and directors.

(*c*) Proper regulation of the allocation of profits.

(*d*) Provisions in order to enable share-holders to inspect the balance sheet and profit and loss account and to take effective action at the general meetings.

(*e*) Time within which the annual general meeting must be held after the close of the financial year.

(*f*) Voting power of managers or other officers of the bank, the period of validity of a proxy, and the voting power of individual share-holders.

(*g*) Decision on the validity of every vote tendered at the polls and time within which objections to the legality of a vote should be raised.

(*h*) Restriction of the power of a bank's directors to refuse to register shares.

(*i*) Provision with regard to voluntary liquidation of the bank and the appointment of liquidators.

Proposals lying within the purview of the Reserve Bank's task.

(*a*) Monthly statements of liabilities and assets and the form of these statements.

(*b*) Advice and co-operation in cases of amalgamation or re-construction of banks which are in difficulties.

ANNEXURE I.

It is suggested that, to begin with, Indian Banking should be organised into three voluntary associations:—

1. The Indian Joint Stock Banks' Association,
2. The Exchange Banks' Association, and
3. The Indigenous Bankers' Association.

Each of these Associations should endeavour to form rules for their respective members so as to make their practice more efficient and as far as possible identical within their own Association.

As an apex of these there should be the Central Bankers' Association; the members of this would be all the members of the other three who had developed sufficiently for the Reserve Bank to feel justified in discounting their bills. The Committee of this Association would not only make rules for its own members but would also give advice to the Subsidiary Associations in every way it thought useful. It is to be hoped that through this co-ordinating influence it may eventually be possible to merge all the Associations into the Central Banking Association.

ANNEXURE II.

Audit Regulation in Canada.

1. *Those qualified to audit.*—The affairs of all Canadian Banks must be audited by two persons residing in Canada, each one of whom must have been an accountant for at least six years preceding the taking up of his appointment and he must also be a member in good standing of an institute or association of accountants incorporated under authority of the legislature of any province of Canada.

2. *Lists of Auditors.*—A list must be furnished to the Minister of Finance and also to the Canadian Bankers' Association by each such incorporated institution of accountants of all members of their corporation in good standing whose names are entitled to be included therein as determined by the provisions of the above section and such list must be certified under their corporate seals.

3. *Selection of Auditors.*—The Minister of Finance may select from such list the persons any one of whom shall be eligible to be appointed an auditor of a bank, but if the Minister does not make a selection all the persons on the list shall be eligible.

4. *Publication of List.*—The Minister shall cause to be inserted in the Canada Gazette a public notice giving the names of persons so selected.

5. *Appointment of Auditors.*—Share-holders shall at each annual general meeting appoint two persons, not members of the same firm, whose names are included in the last published list to audit the affairs of the bank, but if the same two persons or members respectively of the same two firms have been appointed for two years in succession, one such person or one member of one such firm shall not be again appointed as auditor during the next two years.

6. *Remuneration of Auditors.*—The remuneration of auditors is fixed by the share-holders at the time of their appointment and is paid by the bank.

7. *Power of Auditors.*—Every auditor shall have a right of access to the books and accounts, cash, securities, documents, etc., and shall be entitled to acquire from the directors and officers of the bank such information and explanation as may be deemed necessary.

8. *Scope of audit.*—The Minister may, from time to time, require the auditors of a bank to report to him upon the adequacy of the procedure adopted by the bank for the safety of its creditors and shareholders and as to the sufficiency of their own procedure in auditing the affairs of the bank, and the Minister at his discretion may enlarge or extend the scope of the audit.

9. *Duty with respect to Directors.*—It shall be the duty of the auditors to report individually or jointly to the general manager and to the directors in writing, any transactions or conditions affecting the well-being of the bank which may not be satisfactory to them. They shall report specifically to the General Manager and Directors upon any loans exceeding 1 per cent of the paid-up capital which in their judgment are inadequately secured. This provision is not to be construed to relieve any director from the proper discharge of his duties. The report must be incorporated in the minutes of the Directors' next meeting.

10. *Report by Auditors.*—The auditors shall make a report to the share-holders on the statement of the affairs of the bank to be submitted by the directors at the annual general meeting and this report shall state (*a*) whether they have obtained all the explanations they require, (*b*) whether, in their opinion, the transactions of the bank have been within the powers of the bank, (*c*) whether, in their opinion, the statement referred to in the report discloses the true condition of the bank, and (*d*) whether the statement is as shown by the books of the bank.

11. *Auditors' Report.*—The Auditors' Report must be attached to the statement submitted by the directors to the share-holders and must be read before the share-holders in the Annual General Meeting.

12. *Employment by Bank.*—Any auditor of a bank during his term of service or the firm to which he belongs may not undertake any employment for, or at the instance of, such bank.

13. *Eligibility.*—No person shall be appointed an auditor of a bank if he or any member of his firm is a director or officer of such bank.

14. *Reports to Ministers.*—A copy of all reports made by the auditors to the General Manager and Directors shall be transmitted to the Minister by the Auditors at the same time as transmitted to the general manager and directors.

THE CANADIAN BANKERS' ASSOCIATION.

(*See Section 124 of Bank Act*).

The principal functions of the Association include:—

1. Supervision of Chartered Banks' note circulation,
2. Custody and management of Central Gold reserves,
3. Establishment and control of Bankers' Clearing Houses,
4. Promotion generally of interests and efficiency of banks and bank officers; Education and training of officers,
5. The appointment of a Curator to any bank that has failed pending the nomination of a Liquidator. No by-law, rule or regulation of effect until approved of by Treasury Board.

ENCLOSURE VI.

COMMERCIAL BANKING.

Conclusion communicated to the foreign banking experts.

1. The figures of deposits for ten years from 1919 to 1928 with the various classes of banks are as under:—

(In crores of rupees).

Year.	Imperial Bank of India.	Exchange Banks.	Joint Stock Banks.
1919	68	74	61
1920	78	75	73
1921	66	75	80
1922	57	73	65
1923	74	68	48
1924	77	71	55
1925	78	71	58
1926	74	72	63
1927	72	69	64
1928	71	71	66

It is not correct to infer from these figures that the banking resources of India are limited, for, one has to take into account the following factors:—

(*a*) The number of principal towns which possess a bank or a branch or agency of a bank was only 339 in 1928. It was 185 in 1919. It has to be remembered that the number of towns in India is about 2,300. It is true that the investigations of the Provincial Banking Enquiry Committees indicate that there is little hoarded wealth in the country held in precious metals other than investments in ornaments and jewellery. But it is obvious that the absence of banking facilities at most of the urban centres must result in the temporary locking up with individual possessors of large sums of money which may be required for expenditure later but which, if commercial banks were in existence at such centres, would be made available for the development of credit facilities, particularly to meet seasonal requirements. We have not overlooked in this connection the existence of indigenous bankers, but it appears from the reports of the Provincial Banking Enquiry Committees that it is not the universal practice of these bankers at all places in India, to accept deposits from the public. Considering the fact that the vast bulk of the people live not in towns but in villages, the absence of banking facilities to the people at large becomes all the more noticeable.

(*b*) The deposits with co-operative central banks and banking unions on the 30th June 1930 were Rs. 18½ crores. Further, in spite of various restrictions on investments in the postal savings banks and post office cash certificates, the figures of these accounts increased from Rs. 27 crores in 1921-22 to Rs. 72 crores in 1929-30. These facts together with the increase in Government borrowings by short term loans and treasury bills, at any rate, during the last few years, indicate the existence of potential banking resources in India. The committee recognise that to the extent that short term loans and Treasury Bills are taken up by banks out of deposits, it would not be a separate factor.

(*c*) Although no accurate figures of export of capital from India are available, it is generally accepted that resources which would ordinarily have remained in India have in recent years a tendency to be remitted abroad, and this would partly affect bank deposits.

(*d*) The duplication of deposits is very much less at present than before, balances of Exchange Banks and joint stock banks with other banks and interlending among banks being very much less than 10 years ago. The deposit figures of 1928 would, if these balances were excluded throughout the decennium, show a larger increase during the ten years period than is apparent.

(*e*) The last years of the decennium were years of trade depression while the earlier years were of the boom period. A statistical comparison of the mere figures of total deposits therefore does not convey a true idea of the position. We may note in this connection the corresponding figures of deposits with the various classes of banks mentioned above for the years 1900 and 1910.

(In crores of rupees.)

Year.	Imperial Bank (Three Presidency Banks).	Exchange Banks.	Joint Stock Banks (with capital and reserves of Rs. 5 lakhs and over).
1900	13	10	8
1910	32	25	2

(*f*) It may be noted that the capital of indigenous bankers and their deposits are not included in the table at the beginning of this paragraph as the figures are not available.

2. It will be a long time before India is provided with a net-work of branches of joint stock banks. Partly for this reason and partly to utilise the valuable knowledge and resources of the indigenous bankers, it is necessary to link up the latter with the Reserve Bank and thus strengthen their present position and increase their ability particularly for the purpose of providing banking facilities in areas where there is no bank at present, and to classes of population whose requirements are not generally catered for by joint stock or co-operative banks. The exact method of linking the indigenous bankers with the Reserve Bank is dealt with separately.

3. It is not advisable in the larger interests of the country to restrict in any way the branch activities of the banks in India, even though it may result in over-banking in certain up-country places and in weaker banks, under the stress of competition, offering higher rates for deposits and accordingly giving loans at higher rates and increased risk. The question of imposing any restrictions on the opening of new branches by existing Exchange Banks and of requiring banks in general to take out licenses is dealt with separately.

4. The position of the Imperial Bank of India as the bankers of Government gives it an advantage over the Indian joint stock banks, but the competition between these is not at present dangerous, though certain witnesses have drawn the attention of the Committee to the fact that the competition is keenly felt. There is no competition at present in regard to borrowing rates and that in regard to lending rates is beneficial to the public. The question whether any special restrictions should be imposed on the operations of the Exchange Banks is examined separately.

5. If banks could not open full-fledged branches as not being warranted by the business expected, we recommend for their consideration that they should open sub-agencies which might develop into branches later.

6. No obstacles should be put in the way of mergers among smaller joint stock banks by stamp duties or taxation, and any existing obstacles in this direction should be removed. For example, if an amalgamated bank comes under the super-tax law, while the old individual banks were free, an exemption from super-tax for a limited period is recommended.

7. The question of the control to be imposed on a bank securing a majority ownership of another bank's shares will be considered in the section on Regulation of Banking.

8. The practice, which joint stock banks and the Imperial Bank are cultivating, of giving loans against gold ornaments is of two-fold benefit to the country; it introduces banking facilities for borrowing and saving to classes of people unaccustomed to the use of banks and it saves these classes of the population from the high rates of the money-lender.

9. The extension of banking facilities for borrowing and saving will be facilitated by the use of vernacular scripts in the various fields of banking. The main scripts are 13 as noted below and each province would need 2 to 4 scripts to be recognised.

1. Assamese; 2. Bengalee; 3. Burmese; 4. Devnagri; 5. Gujerati. 6. Gurmukhi; 7. Kanarese; 8. Malayalam; 9. Modi; 10. Sindhi; 11. Tamil; 12. Telugu; 13. Urdu.

10. The relations between commercial banks and industries and the possibility of developing such relations on the lines of the German System are dealt with in the separate memorandum dealing with the financial requirements of industries.

11. Existing commercial banks have invested a relatively large proportion of their resources in Government securities as compared with bills, but the position should improve with the passing of the present trade depression, the creation of a Reserve Bank and the development of a Bill Market in India.

12. Bank advances fall under three classes (i) advances against tangible and saleable security lodged or pledged with the lender; (ii), clean advances against personal credit with a second signature to the pro-note; (iii) clean advance against the personal credit of the borrower only.

In India advances *are mostly* of classes (i) and (ii) while in western countries with highly developed banking systems, advances on class (iii) occupy an important place. The difference between the position of India and such other countries is due to various reasons. The principal reason is the tradition established by the old Presidency Banks and later followed by the Imperial Bank of India based on the restrictions imposed upon them under the Acts governing their operations. This tradition has been followed by other joint stock banks and has been reinforced by the provisions of the Indian Companies Act which demands a statement of loans under a separate classification showing secured and unsecured advances. The granting of unsecured loans on property appraised credit, instead of being regarded as ideal banking, is actually regarded by the shareholders as making for lack of safety for the bank and evidence of unsound banking.

The other reasons are:—

(*a*) the absence of touch and the lack of knowledge resulting therefrom between borrowers and lenders in the principal Money Market centres;

(*b*) absence of the policy of 'one man, one bank' which obtains in western countries;

(*c*) the practice in India has been materially assisted by, and has in its turn fostered, the Managing Agency system;

(*d*) absence of institutions like 'Seyds' and 'Duns' for supplying information about the financial standing of the banks' customers.

13. We consider that banks in India generally should adopt as far as possible a more progressive policy in the matter of granting clean advances on the personal credit of borrowers only. In our opinion the change will be facilitated by the growth of the practice 'One man, one bank'.

14. We understand that individual banks at present maintain agencies for obtaining information in regard to their customers. The problem of pooling this information and organising some system of collecting reliable information suited to the needs of Indian customers and conforming as much as possible to Indian custom should be studied by the banks and the Bankers' Association proposed by us.

15. In order to open up the field of banking, any existing legal hindrances ought to be examined and removed if possible. Please see in this connection the chapter on 'Legislation and Legal Procedure' in the summary of Provincial Banking Enquiry Committees' Reports.

16. The system of bank acceptance, which widens the banking facilities offered by commercial banks, especially for purposes where cheap and regular three months' credit is desirable, does not obtain in India. The introduction of the system depends for its success on the creation of a discount market and a Reserve Bank, as a bank giving its acceptances, wants its acceptances to be readily negotiable and to have a Central Banking Institution which will be ready in the last resort to discount such acceptances and thus protect the acceptance market and the prestige of the banks giving their names to the acceptances in that market.

17. There is no co-operation between banks doing commercial business in India (including indigenous bankers) which could improve the standard, eliminate the element of weakness, and foster the combination of smaller banks to larger units. An Association of all such banks should be formed as early as possible to render such co-operation possible and to represent the interests of such banks at large to other institutions including the future Reserve Bank and the Government.

18. The suggestion that Postal Savings Banks should permit deposits being withdrawn by cheques will be separately considered but the development of any other banking business by these Savings Banks is not recommended at this stage as it would make it more difficult and less attractive for joint stock banks to open branches at suitable places. It would also interfere with the desirable development of the indigenous bankers and of Co-operative banks.

ENCLOSURE VII.

Financial requirements of Industries.

Conclusions communicated to the foreign banking experts.

1. Generally speaking initial block capital for industrial enterprises should be put up by private or public subscription. Block capital for subsequent improvements and extensions such as is not provided out of undivided profits should be provided by increase of share capital or by issue of debentures; but pending a favourable opportunity for such further issues, commercial banks might be expected to supply finance for these purposes in the form of *temporary* advances provided that adequate security is forthcoming.

2. Further the ideal arrangement is that industrial enterprises should also provide out of their initial capital, the minimum necessary working capital, the amount of which will depend on the particular facts connected with each industrial enterprise and that any extra requirements for working capital might be met by short-term advances from commercial banks which would be entitled to require that the industrial enterprise maintains a safe and proper relation between owned and borrowed capital.

3. Banks in Germany make their advances against the security of the block, the liquid assets of the industrial enterprises being left unencumbered as security for suppliers of raw material, etc., to the enterprise. In Canada, banks are prohibited by law from advancing against immovable property and advances are secured by liquid assets, but banks are allowed to take real estate as additional cover to an existing debt. The practice thus varies from one country to another and no hard and fast rule can be laid down regarding the form of security for advances. Industrial concerns in India may reasonably be expected to have their working capital supplied by commercial banks, if adequate security to the satisfaction of the banks is offered.

4. Banks in India lend much less on personal security than is advanced in other countries. They demand tangible securities or additional signatures of sureties.

5. Useful liaison between banks and industry may be created by the appointment of one of the Bank's Managing Directors, General Managers, or Managers as one of the Directors of the industrial concern financed by the bank. Besides the furnishing of periodical balance sheets and the representation of a member of the bank management on the boards of companies, it is necessary for the establishment of an effective liaison that the entire banking business of an industrial concern requiring accommodation from a bank carrying on industrial finance should be concentrated in the hands of that bank and not split among several banks.

6. While it is true that the cotton mill industry in certain centres of India has depended on the deposits, from the public and its private share capital for its successful growth and development, it is desirable that with the co-operation of banks these deposits should be replaced by debenture capital as soon as possible.

7. Both in connection with the above conversion operations and the further issue of shares and debentures for extensions and improvements, such of the existing commercial banks as are well established and carrying on their ordinary banking business on the safest and soundest lines might with some advantage to

the industries, follow as far as possible the German system. Under this system in addition to the ordinary banking business which is decidedly the most important department of the German bank, there is a department for industrial and similar finance with a limited share of the bank's own resources for carrying on financial transactions arising from time to time in its relations with industrial and similar joint-stock companies. The German banks through these departments make share and debenture issues for their customers either separately or by forming syndicates, but they depend in all cases on early sale in the capital market of the share of the issues they have taken over. The amount invested for industrial concerns in such stock transactions is kept in conservative relation to the share capital and reserves of the banks and while it remains more or less stable in the aggregate, its composition is changing as quickly as market conditions will allow.

8. It is possible that the Imperial Bank as soon as the Reserve Bank comes into being may make a start in the above direction and give a lead. The bulk of the joint stock banks in India are at present not ready for this activity and even the larger ones can only cultivate it slowly, with great caution and preferably under strong guidance as participants in strong syndicates.

9. The system of Managing Agents in India occupies an important place in the organisation of industries. We consider that an attempt should be made to make industrial enterprises in India less dependent on this system for future development. The establishment of direct friendly relations between industrial companies and commercial banks is desirable especially in view of the capital demands that are likely to arise in connection with mergers and reconstructions following the present economic crisis.

10. The appointment of Advisory Committee in banks by the Board of Directors is very useful and desirable.

11. (*a*) As an exception to what is said in (1) above a Provincial Government may in the discharge of its responsibilities for the development of industries within its territories, find it necessary to ensure the supply of financial facilities to industrial concerns and in such cases we recommend the establishment of a Provincial Industrial Corporation working with capital initially or permanently supplied by the Provincial Government. We note that five of the Provincial Banking Enquiry Committees have recommended the establishment of such institutions, and have referred to particular types of industries which need financial assistance. Our proposals will cover the case of such industries, though they will not be necessarily restricted to them.

This recommendation assumes that the development of industries within their territories will be one of the functions which will vest in the Provincial Government under the constitution and that there will be no undue interference with their borrowing powers from a central authority.

(*b*) Government should take such portion of the Share capital of the Corporation as cannot be raised by public subscription.

(*c*) The share capital may be supplemented by debenture capital not exceeding twice the amount of the share capital at the outset. There should be no difficulty in raising this proportion of debenture capital if the investments of the Corporation are sound. In order to attract investment in such debentures, if it is found necessary by

Government to offer a guarantee of interest on the debentures, Government may give limited guarantee, *e.g.*, limited to the first issue of debentures, or limited to a certain period of currency of the debenture issue.

(*d*) Government may, if necessary, purchase a portion of the debentures until a regular market has been created for these debentures.

(*e*) The industrial Corporation may secure additional resources by taking long term deposits from the public, but an immediate beginning in this direction with deposits for less than 2 years is undesirable as that might create competition with existing joint-stock banks. When long term deposits are taken, the money thus acquired should be lent out for the same period as that of the deposits.

(*f*) In cases where Government subscribes to the share or debenture capital of the industrial corporation or guarantees interest on its debentures, it should be entitled to be represented on the Board of Directors during the continuance of such interest in, and liability for, the concern.

(*g*) Should the Provincial Government so desire, the Government Director will be entitled to ask for a reference to the Government if he does not agree with the views of the majority in regard to important matters like increase or reduction of capital, granting of loans in any particular cases and appointment of Chief officials.

(*h*) The Committee recommend that bye-laws should be framed by the Corporation defining the conditions under which financial facilities may be granted by it to industrial concerns. When Government has an interest in the Corporation, such bye-laws will require the sanction of Government.

12. When in a province an industrial Corporation has been established on the lines contemplated in (11) above Government assistance in regard to capital under the State Aid to Industries Act should be given through that Corporation.

13. There are, and will be, certain industries mostly of a national or important character the development of which will fall within the functions of the Federal or the Central Government and not of Provincial Governments. Further, Provincial Governments may themselves seek in certain other cases the formation of an All-India Bank to secure proper liaison in the matter of finance and a direct connection with the large spending Departments of the Central Government as well as direct co-relation for the industries as a whole with railway rates, customs, stores purchase and other policies of the Central Government. As the Central Government will have no territory of their own and as the collective benefit from the All-India Corporation will flow back to the Provinces, the general economic considerations leading to the establishment of such an All-India institution may find strength from the support of the Provincial Governments. There must, therefore, be cases in which the vehicle of giving the financial aid should preferably be an All-India Industrial Corporation. We should like it to be clearly understood that our recommendations do not rule out the formation of such an institution when its need is established to the satisfaction of the Federal or the Central Legislature.

14. Small industries and some cottage industries should be developed with the aid of co-operative banks. It is not necessary for the co-operative banks to have industrial or technical advisers on their

permanent staff. A manager with ordinary commonsense should be able to carry on and there should be no difficulty in securing valuable advice and guidance from the people in charge of large-scale industries without any cost. German experience in this field is worth studying and this might be done by deputing men to go and study the problem on the spot as it is not possible to lay down general principles in the case of small industries as in the case of large industries. Government assistance should be given in connection with propaganda and education and there is no objection to Government providing funds if the movement grows on a large scale and there is an actual lack of funds.

(This portion may require amendment as a result of later discussions with Dr. Friederich).

15. The hardship caused to industry by the seasonal rise in the Imperial Bank of India rate and the remedy therefor as also the establishment of investment trusts are dealt with in the section on the Money Market.

ENCLOSURE VIII.

FINANCING OF FOREIGN TRADE.

Conclusions communicated to the foreign banking experts.

1. We consider that it is not desirable that the country should be dependent on the facilities afforded by non-Indian institutions for the financing of foreign trade.

2. In view of the foregoing statement we recommend the establishment of at least one new Indian institution for financing the foreign trade of India.

3. Further, in view of the fact that the chances of the successful entry and operation of such an institution depending upon private initiative and enterprise are meagre, we are of opinion that the said institution must exclusively handle the work connected with foreign remittances of Government. It is understood that when the Reserve Bank is established, the Reserve Bank will take the place of the Controller of Currency in deciding the rate of Government remittance.

4. The State should subscribe the share capital of the bank at the start, and 10 years after the establishment of the bank the question of issuing shares to the public may be reviewed by Government.

5. The proposed bank should be established in the next two years irrespective of the simultaneous establishment of the Reserve Bank.

6. It has been suggested to us by witnesses that joint stock banks should do exchange business. We consider it desirable that this policy should be pursued. This development should assist the natural growth of the Indian share in India's foreign trade, both directly by the facilities afforded to the customers of these banks and indirectly by providing a further stimulus to the foreign banks under the stress of competition to assist the Indian merchants to a greater degree.

7. In view of the Committee's provisional conclusion No. 12 under the heading "Money Market" the inference follows that there is no reason why the State Exchange Bank, when it is established, should not foster the introduction of rupee bills for import business. In fact, the Exchange Banks may well make efforts immediately in this direction provided the importers are prepared to adopt the arrangement.

8. It is recommended that any bank, Indian, or non-Indian, wishing to do banking business in India should be required to take out a license from the Reserve Bank, when it is established. This is partly necessary in the interests of depositors and partly for giving the Reserve Bank some control over the banks operating in the country.

9. It has been urged before the Committee that the opening of new branches by the Exchange Banks and the Imperial Bank of India affect the branch banking activities of the other Indian joint stock banks. The Committee recommend that in order to ensure a well ordered development and extension of joint stock banking in the country any bank desiring to open a new branch in India should be required to obtain the approval of some authority in India, preferably the Reserve Bank, before doing so.

10. Licences should be freely granted to the already established banks and it would be the business of the licensing authority to see that the provisions of the law and any other conditions specified in the licences are complied with.

11. In addition to periodic statements from Exchange banks along with other member banks provided for in the Reserve Bank Bill, annual statements showing their assets and liabilities relating to their Indian business, as prescribed by the Reserve Bank from time to time, should be furnished by the Exchange banks to the Reserve Bank as a condition of the grant of licences. Such statements will be exhibited by the Exchange Banks along with the balance sheet at all their offices.

12. The returns to be submitted by the Exchange Banks to the Reserve Bank shall be audited in such manner as may be prescribed by the Reserve Bank.

N.B.—Conclusions Nos. 8, 9, 11 and 12 have been included in the conclusions relating to the Regulation of Banking.

ENCLOSURE IX.

MONEY MARKET IN INDIA.

Conclusions communicated to the foreign banking experts.

1. The existing system of control of currency and credit in India which is in the hands of Government and the Imperial Bank of India respectively is defective. The Committee are of opinion that the control of currency and credit in India should be placed as soon as possible in the hands of a single authority which may be termed the Reserve Bank.

N.B.—This recommendation has been made on the understanding that the Reserve Bank of the right type would be created.

2. The establishment of a Reserve Bank would, by mobilisation of banking and currency reserves in one hand, tend to reduce the charges borne by trade for the use of loanable money, other factors remaining the same.

3. The creation of the Reserve Bank may be expected to diminish, if not remove the existing differences in the rates of the indigenous Money Markets and the Money Markets of the Presidency towns provided the rediscount and other facilities offered by it become effective and the number of banks and indigenous bankers enjoying those facilities are numerous enough for the requirements of the country.

4. It is clear that the borrowings of the Government of India in recent years have invited criticism in all quarters both in regard to the amount, the time and the terms and in regard to their effect on the general level of interest rates to the detriment of trade and industry and of the development of banking facilities. As it is not a part of the function of this Committee to enquire into this matter, we abstain from passing judgment in the matter. The Committee, however, hope, that when the Reserve Bank is established, Government would work in close co-operation with that bank in the matter of their borrowing operations (including rates for post office savings banks deposits and cash certificates) and that in those circumstances there will be no room for adverse criticism of the kind referred to.

5. The present conception that th seasonal monetary stringency in India is inevitable and that this stringency must bring about a wide range of interest rates is erroneous and can be traced to the existing defective system of control of currency and credit. It will be one of the functions of the Reserve Bank, when it is created, to keep sufficient free reserves at the beginning of the busy season to supply the country with the currency needed during the crop-moving season without the necessity of putting up the interest rate solely on this account. The present system of issue of emergency currency under which no issue is possible except at stated rates of interest has contributed to this unsatisfactory state of affairs. With the establishment of the Reserve Bank, the supply of additional currency against proper account will be automatic, and the question of penal rates of interest would not arise.

6. Owing to the absence of a well-developed and extensive Bill Market in India at present, it may not be possible for the Reserve Bank to make its influence felt without an additional provision enabling it to make loans and advances on the security of movable goods, wares and merchandise, besides the warehouses* warrants or warehouse receipts representing the same. We recommend that such provision should be made. The Reserve Bank need not necessarily avail itself of this provision to a large extent, but the mere fact of its existence will give it a strong influence on the level of interest rates.

7. The Reserve Bank should not ordinarily compete with Commercial banks for profit, but the Reserve Bank ought to be in a position to operate in the open market and compete with the Commercial banks so as to make its policy effective.

8. As it will take some time before a greater use of bills is made by the financial and business community of India, it is necessary to extend and improve as far and as soon as possible the system of giving credit against the security of movable goods, especially the products of the country. This will be facilitated by the development of warehouses adapted to the requirements of the various parts of the country.

9. The following further measures to stimulate the use of biils ought to be considered:—

(*a*) Stamp duty on bills of exchange should be uniform for all parts of India.

(*b*) The published rate of the Reserve Bank should be the discount rate for genuine first class trade bills and the rate demand loans against authorised securities should be somewhat higher.

(*c*) The use of vernaculars and the standardisation of that use should be promoted.

(*d*) Conditions for extension of the Bill market will be created by raising the standard and improving the banking methods of the indigenous bankers whose knowledge of local conditions and of the trade conditions which must form the basis of good bills, would enable that community to provide the commercial banks and the Reserve Bank with a gradually growing number of genuine trade bills.

10. The published rate of the Reserve Bank should be the minimum rate at which it is prepared to buy or rediscount first class trade bills and promissory notes of member banks and bankers, the Bank having full discretion in regard to the rates for its open market operations. To stimulate the use of bills the Reserve Bank should use its discretion to charge a higher rate for demand loans against authorised securities and it may find it useful to have a larger margin between these rates at the outset than will be necessary after the bill market has developed. Should the Reserve Bank in the first few years at any rate find it necessary to discount the paper of the public without bank endorsement it should consider, whether it should not charge a higher rate of discount to the public than that charged to member banks and bankers.

*Wherever the word " warehouse " is used in this note it includes " godown."

N.B.—'Trade Bills will include promissory notes arising out of *bona fide* or commercial trade transactions bearing two or more good signatures'.

11. Subject to any further discussions on the subject of indigenous bankers in connection with the memorandum on "Rural Finance", the following suggestions are accepted :—

(*a*) The Committee are not in favour of any compulsory measures in regard to bringing indigenous bankers within the Reserve Bank scheme.

(*b*) Such of the indigenous bankers as desire to be placed on the approved list of the Reserve Bank and become eligible for the recognised financial facilities from that institution up to limits prescribed by the latter, should undertake to specify the following conditions:—

(i) For rediscount facilities under section 17 (2) (*a*) of the Reserve Bank Bill of 1928 such indigenous bankers as are engaged in banking proper should be eligible to be placed on the approved list of the Reserve Bank in the same manner as joint-stock banks.

(ii) They should conform to any standard regarding owned capital, etc., prescribed for this purpose by the Reserve Bank.

(iii) They should agree to have proper books of accounts kept in the usual recognised manner and to have them audited annually by one of the recognised auditors. These books should also be available to the Reserve Bank for inspection and audit.

12. The introduction of rupee bills in connection with the import trade of India primarily depends on the feasibility of an alteration of the currency in which the import bills are drawn and this will be dealt with under the head Financing of Foreign Trade. It has been urged before us that with an import business on private account of approximately Rs. 230 crores a year, the natural bill market for this purpose is India and not outside India. This is particularly justified by the fact that at the present time when most of the import bills are being drawn in sterling currency the rate of interest payable by the Indian importer (from the date of purchase by the London Bank of usance bill on him up to the date of maturity of the bill *plus* at least 18 days for remittance of the proceeds of the draft to London by a Demand Draft) is not based on the open market rate of discount in London but on the Bank of England rate with a minimum of six per cent. all through the year.

13. The words "drawn and" in clause 17 (2) (*a*) of the Bill should be deleted with a view to widen the scope of the clause so as to include rupee import bills when they come into being. The clause as thus amended would read as under:—

"the purchase, sale and rediscount of bills of exchange and promissory notes, payable in India and arising out of *bona fide* commercial or trade transactions, bearing two or more good signatures, one of which shall be that of a scheduled bank, and maturing within ninety days from the date of such purchase or rediscount, exclusive of days of grace."

14. In view of the fact that if indigenous bankers were included in the list of scheduled banks, a greater proportion of the agricultural population would come within the purview of this clause than if the Reserve Bank dealt only with the existing scheduled banks and Provincial Co-operative Banks, it is not necessary to suggest any change in the limit prescribed under clause 17 (2) (*b*) of the Bill for total value of the agricultural bills discounted or rediscounted.

15. As regards the period of 6 months for agricultural bills in clause 17 (2) (*b*), the period may be extended, if this is considered more suitable to meet the conditions of agriculture in India.

16. When any securities are issued with the guarantee of Government both for capital and interest, the question of including them in the securities specified in sub-clause (8) of clause 17 of the Bill of 1928, should be considered.

17. The Reserve Bank should be permitted to act as agent for any Indian State in the same way as it is empowered to act as agent for the Central and Provincial Governments in clause 17 (11).

18. The words "and the Reserve Fund" should be inserted between "share capital" and "of the Bank" in the first proviso to sub-clause (14) of clause 17 of the Bill. The proviso as thus amended would read as under:—

> "Provided that the total amount of such borrowings shall not at any time exceed the amount of the share captial and the Reserve Fund of the Bank."

19. Omitted.

20. The words "drawn and" should be deleted from line 10 of clause 18 of the Bill, it being the necessary corollary to the amendment previously proposed in regard to sub-clause 2 (*a*) of clause 17. The clause as amended would read as under:—

> "When, in the opinion of the Board, it is necessary or expedient that action should be taken under this section in the interests of Indian trade or commerce, or for the purpose of enabling the Bank to perform any of its functions under this Act, the Bank may, notwithstanding any limitation contained in sub-clauses (*a*) and (*b*) of clause (2) of section 17, purchase, sell or discount any bills of exchange or promissory notes payable in India and arising out of *bona fide* commercial or trade transactions, bearing two or more good signatures and maturing within ninety days from the date of such purchase or discount, exclusive of days of grace."

21. The cost of internal remittance in India is higher than in other countries and should be reduced as far as possible with a view to bttter utilization of the resources of the country thereby lowering the rates of interest generally throughout the country. It is understood that in Canada it is done free by banks if the places are near to one another, say within 300 or 400 miles, but a small charge is made if they are far apart; the charge for remittance in Java is only 1 guilder for remittance of 1,000 guilders or above irrespective of the amount.

22. If transfers of money for member banks and bankers were made by the Reserve Bank free of cost as a national service, it would have a good influence on equalisation of interest rates throughout the country. It will perhaps not be possible in the beginning to abolish the charge but it might be possible at a later stage.

23. The Reserve Bank should have the direction of the Clearing Houses in India.

24. The establishment of investment trusts is a matter for private enterprise and may be looked upon as the possibility, as banking and investment habit grows in India. We do not recommend any special forms of State assistance to such institutions.

25. The Reserve Bank, when it is started, will at the outset have a very small number of branches and would make use of the branches of the Indian Joint-Stock banks including the Imperial Bank at other places.

26. In order to encourage the opening of branches by joint stock banks, the Reserve Bank may place for the first five years with every new branch opened by an approved joint-stock bank at a centre where there are no joint stock banks a deposit of such sum on such terms and conditions as it may consider necessary.

ENCLOSURE X.

The Imperial Bank of India.

Conclusions communicated to the foreign banking experts.

1. The Reserve Bank would utilise the Imperial Bank as its agents in the country wherever it has not got a branch of its own for such period after its establishment until the Board of the Reserve Bank were able to make permanent arrangements with the Imperial Bank or any other bank.

2. The restrictions imposed by the present Act on its transacting foreign exchange business or other class of business which are not imposed on the operations of Indian joint-stock banks should be withdrawn.

3. Any other matters connected with the Imperial Bank Act will be considered by the Committee separately.

ENCLOSURE XI.

REGULATION OF BANKING.

Conclusions communicated to the foreign banking experts.

Need for legislation.

The Committee are not in favour of elaborate banking regulations dealing with matters which had best be left to the discretion and sense of responsibility of the directorate and the management; such restriction is at times likely to do more harm than good and hamper the activities of banks. At the same time the Committee are of opinion that the existing provisions in the Indian Companies Act governing banking companies are inadequate. Several important matters having a vital bearing on questions such as the stability of banks, the safety of shareholders and depositors and the proper management of banks and the development of banking generally remain to be provided for. Some of these matters require amplification of the existing statutory provisions; some can be met in the case of banks to be established in future by suitable provisions in the Memorandum and Articles of Association of the different banking companies according to their respective requirements, subject to the approval of the Registrar of Joint Stock Companies; some might be left to the control of Directors and the supervision of Auditors; while some would lie within the purview of the Reserve Bank when it is established.

Statutory Provisions.

2. There are two ways in which the existing regulations can be amplified:—

(1) by the promulgation of a special Bank Act comprising the necessary provisions governing all banking institutions,

(2) by the amendment and amplification of the Indian Companies Act so as to provide for the additional matters which require to be dealt with by legislation.

3. The majority of the Committee prefer the first alternative. The foreign banks operating in India should also be brought within the purview of the Act.

4. The additional matters which should be provided for by legislation are as under:—

(1) The Act should lay down (*a*) that adequate provisions regarding the subjects mentioned in paragraph 6 should be incorporated in the Memorandum and Articles of Association of a company which wants to make use of the word "bank", or the words "savings bank", "banking company", "banking house", "banking association" or "banking institution", or any word or words of import equivalent thereto in connection with its operations; and that (*b*) an existing concern using any such title should arrange to conform to such provisions within five years after the Banking Act is passed, failing which registration in its existing name would be cancelled.

N.B.—Penalty for unauthorised use of the title to be considered by the Committee later.

(2) These Articles should prohibit activities other than banking.

(3) The Act should give powers to the Registrar of Joint Stock Companies to refuse the registration of banks the Articles of Association of which are not in accordance with the provisions of the law.

(4) There should be a separate index of the names of members of a banking company for ready reference and inspection by shareholders, as is provided for by section 96 of the (English) Companies Act, 1929.

(5) The authorised capital of a bank should not be more than double the subscribed capital and the paid-up capital should not be less than 50 per cent. of the subscribed capital before commencement of business. It should not commence business until its paid-up capital is Rs. one lakh.

(6) Auditors and Officers of a bank should be rendered liable for omission to state material facts in their reports and in the presentation of the accounts of the bank.

(7) Any payment to any auditor or any account in addition to the amount of remuneration fixed at a general meeting of shareholders shall be invalid unless fixed or confirmed by the shareholders.

(8) Provision should be made for a temporary moratorium, on the recommendation of the Reserve Bank, with a view to preventing compulsory liquidation of a bank which is in difficulties.

(9) Provision should be made for the appointment by the creditors of a Committee of Inspection on the lines of Section 240 of the English Companies Act, 1929, in the case of liquidation of a bank.

(10) In the case of compulsory liquidation there should be provisions on the lines of the English Companies Act, (Sections 237-240) for safeguarding the interests of creditors.

N.B.—The precise provisions will be settled later.

(11) Provision prescribing form of Balance Sheet and Profit and Loss Account.

N.B.—The question whether the Form prescribed in the Indian Companies Act is adequate will be considered later.

(12) Provision that the annual general meeting shall be held not later than three months after the close of the year.

(13) In case of voluntary liquidation of a bank the appointment of a liquidator shall be made by or with the approval of the Board of Directors of the Reserve Bank.

(14) Provision requiring institutions doing banking business in India to keep a separate register of shares owned by non-nationals.

(15) It is recommended that any bank, Indian or non-Indian, wishing to do banking business in India should be required to take out a licence from the Reserve Bank, when it is established. This is partly necessary in the interests of depositors and partly for giving the Reserve Bank some control over the banks operating in the country.

(16) It has been urged before the Committee that the opening of new branches by the Exchange Banks and the Imperial Bank of India affect the branch banking activities of the

other Indian joint stock banks. The Committee recommend that in order to ensure a well ordered development and extension of joint stock banking in the country any bank desiring to open a new branch in India should be required to obtain the approval of some authority in India, preferably the Reserve Bank, before doing so.

N.B.—Licenses should be freely granted to the already established banks and it would be the business of the licensing authority to see that the provisions of the law and any other conditions specified in the licenses are complied with.

(17) In addition to periodic statements from Exchange banks along with other member banks provided for in the Reserve Bank Bill, annual statements showing their assets and liabilities relating to their Indian business, as prescribed by the Reserve Bank from time to time, should be furnished by the Exchange Banks to the Reserve Bank as a condition of the grant of licenses. Such statements will be exhibited by the Exchange banks along with the balance sheet at all their offices.

(18) The returns to be submitted by the banks to the Reserve Bank shall be audited in such manner as may be prescribed by the Reserve Bank.

5. Proposals relative to the following subjects ought to be left to the control of the Board of Directors and the supervision of Auditors. Attempts to regulate them by legal provisions would tend to take the responsibility off the shoulders of directors and auditors and shareholders.

(1) Provision for adequate reserve.

N.B.—Three members have asked that the matter be further discussed or that a limit be prescribed to the rate of dividend until the Reserve amounted to the whole or a fixed proportion of the subscribed capital.

(2) Loans to a limited company, a director of which is also a director of the bank or to a limited company in which any of the bank's directors are members of the managing agent's firm.

(3) Valuation of investments and provision for bad and doubtful debts.

N.B.—The question regarding the manner in which the valuation should be shown in the Balance Sheet stands open for consideration.

6. The following proposals ought to be met by the Articles of Association:—

(1) Prohibition to advance any loan on the security of the Bank's own shares.

(2) Limitation of loans granted to managers, staff and Directors.

(3) Proper regulation of the allocation of profits.

(4) Provision in order to enable shareholders to get the profit and loss account together with the balance sheet and provision that the report and the balance sheet should be posted to shareholders not later than 10 days before the day of the meeting.

(5) Voting power of managers or other employees of the bank, (the Committee are of opinion that the present practice in this matter should continue except that such persons will not be allowed to hold proxies for the purpose of voting on behalf of any shareholders), period of validity of a proxy and the voting power of individual shareholders.

(6) Validity of votes tendered at the polls and time within which objections to the legality of a vote should be raised.

(7) Restriction of the power of directors to refuse to register shares.

7. The Registrar should scrutinise the Memorandum and Articles of Association and, if they do not contain adequate safeguards in regard to these matters to his satisfaction, he should refuse registration until they have been properly amended.

Matters coming within the purview of the Reserve Bank.

8. Questions, such as preparation of monthly statements of liabilities and assets and the form of these statements, and amalgamation and reconstruction of banks in difficulties, may be dealt with by the Reserve Bank, when it is started.

Definition of the term 'Bank' or 'Banker'.

9. The definition of the term 'Bank', or 'Banker', has been regarded as well nigh impossible in other countries. It is much more so in India where a definition cannot be drawn up without excluding many firms of indigenous bankers and individuals who do a considerable portion of the financing of the country.

With a view to encouraging indigenous bankers to adopt modern methods, it has been suggested that the term 'Member of the (Central) Bankers' Association' be invented and that every bank or indigenous banker whose bills the Reserve Bank decides to accept should have the right to use this designation provided they undertake to abide by the rules of the Association. The Committee approve of this suggestion.

Special Audit and Inspection.

10. The Committee do not consider that any special form of Government inspection would serve a useful purpose or be any greater safeguard than the present system of auditing by authorised accountants. The provisions of the Bank Act making auditors of a bank liable for omission to state material facts in their reports and in the presentation of the accounts of a bank, as suggested above, is all that is required.

11. The Committee have not come to any definite conclusion in regard to the proposals included in the attached list B. The Committee understand that the experts are not in favour of these items being included in the lists of proposals classified under four different groups in paragraphs 4, 5, 6 and 8 but that they are willing to leave it to the Committee to come to any decision in the matter in view of the fact that the latter are more cognisant of local conditions than they are.

Statement A.

1. Protection should be given to banks against frauds in connection with goods kept in the custody of customers on trust receipts by making such frauds a criminal offence.

N.B.—General agreement not arrived at. The matter will be discussed again.

2. Directors and Auditors should be made liable for negligence in the discharge of their duties.

3 Compulsory liquidation should be under the supervision of the district court.

4. The Governor General in Council should have the power to order, on the recommendation of the Reserve Bank, transfer of winding-up proceedings from one province to another.

5. The question of costs of liquidation should be dealt with by the courts and delinquent directors or officers of the bank should be prosecuted at public expense.

Statement B.

(1) Provision that the total clean advances made by a Bank or its advances against immovable property should not exceed the paid-up capital.

(2) Limitation of advances to an individual without security.

(3) Limitation of the amount of advances to any single individual or to any single concern.

(4) Restrictions on borrowing and prohibition of mortgage of uncalled capital.

(5) Restrictions on investment in immovable property.

(6) Restrictions on investment in shares and debentures of joint stock companies.

(7) Restrictions as to short term and long term business.

(8) Prohibition of the Managing Agency System.

(9) Restriction of the business of co-operative banks to co-operative banking.

(10) Reservation of the field of agricultural finance for the co-operative banks.

(11) Prohibition of a joint stock bank or its branches in towns having a population of less than 25,000.

(12) Provision for licensing all persons (which term includes firms and banks) doing banking business, excepting joint stock banks incorporated in India and the co-operative credit societies.

(13) (*a*) Selection of only firms of auditors of long standing experience for licenses or certificates to act as auditors of banks.

(*b*) Appointment of two auditors, one by the Directors and the other by the shareholders.

The Experts have expressed the view that if it is felt that any special form of Government inspection would serve a useful purpose or be any greater safeguard than the present system of auditing by authorised accountants and that some of the existing firms of accountants are not sufficiently reliable to be entrusted with the work of auditing the accounts of a bank, some form of regulation based on the Canadian system, which provides for the selection of auditors by the Minister of Finance from a list of persons prepared in accordance with the provisions of the law, be adopted, *vide* Section 55 of Bank Act of Canada. The Experts feel, however, that the strengthening of the Companies Act with regard to auditing so that the auditors must make a report and be responsible for its accuracy is all that is required.

(14) Provision enabling auditors to publish instances of window-dressing in a schedule attached to the balance sheet.

(15) Provision requiring auditors to bring to notice all irregularities discovered by them.

(16) Provision to give right to auditors to make any report they like and to attend and speak at all meetings of the Bank.

(17) Provision to authorise auditors to pay surprise visits for the examination of bank accounts.

(18) Prohibition to make advances to the bank's auditors either jointly with other persons or severally at short or long term with or without security.

(19) Prohibiting directors of a bank to vote as shareholders or to solicit proxies for the appointment or removal of auditors.

(20) Provision requiring that returns of up-country branches of banks should be certified by qualified local auditors.

(21) Amendment of the form of auditors' certificate.

(22) Vesting of the power of investigation in the Controller of Banks, whose appointment has been suggested.

(23) Authorising shareholders of a bank holding 1/10th (and not 1/5th as required under section 138 of the Indian Companies Act) of the shares issued by a bank to apply to the local Government for the investigation of its affairs by inspectors.

(24) Deletion of the clause requiring applicants for inspection to give security of payment of the cost of the enquiry, or in the alternative, reduction of the amount of security required.

(25) Authorising the Controller of Banks to prosecute any persons connected with the bank, who may be criminally liable.

(26) Provision that the expenses of enquiry shall be borne by the state if it results in prosecution and in other cases by the Bank, unless the Controller directs otherwise.

(27) Compelling a bank and its officers to put its affairs on a satisfactory basis, should it be found necessary as a result of enquiry.

(28) Prohibition against the director of a bank acting as a director of another bank.

(29) Provision requiring that a director of a bank should not be related to the Managing Director or the Manager of the Bank.

(30) Disqualifications for the office of director of a bank.

(31) Prohibition against the director of a bank acting as its liquidator.

(32) Removal of a director from office.

(33) Retirement of directors.

(34) Prohibition against a director resigning before the statutory meeting and provision requiring a director's presence at the meeting to give such explanation as may be required of him.

(35) Voting power of directors for the appointment, removal or re-appointment of Chairman, Directors, or auditors of a bank.

(36) Restriction on the Chairman of the Board of Directors acting in that capacity for more than three years without re-election by the Company at a general meeting.

(37) Provision requiring directors to submit to the share-holders such statements of affairs as they may require.

(38) Provision requiring inclusion of certain particulars in the Directors' Report.

(39) Provision requiring that every institution doing banking business in India should have a majority of Indian Directors.

(40) Provision requiring a minimum standard of qualifications for the Manager of a Bank.

(41) Provision requiring that the name of the Manager should be shown conspicuously.

(42) Provision requiring that the term of the Managing Director or a Director should not exceed a stated period without re-appointment by the shareholders at a general meeting.

(43) Prohibition to pay to Managers or Managing Directors certain percentages of annual profits as part of their remuneration.

(44) Power to depositors to elect their own representatives on the Board of Directors.

(45) Provision enabling a shareholder to obtain inspection of minutes of proceedings of general meetings or to get copies of extracts.

(46) Provision compelling the management of the bank to send copies of minutes of meetings to its shareholders, 114.

(47) Provision confining the Bankers' lien to partly paid shares only.

(48) Proposal to create a kind of Bankers mortgages with certain concessions.

(49) Provision requiring a banking company to file, with the Registrar of each Province where it has branches particulars of its mortgages and changes, etc.

(50) Prohibiting share hawking.

(51) Prohibition of bank transfers of shares.

(52) Prescribing a time limit within which transfers should be registered.

(53) Provision requiring that a bank should furnish copies of its Memorandum and Articles of Association to any member of the public on payment of a prescribed fee.

(54) Provision requiring that copies of contracts disclosed in the prospectus of a banking company should be filed with the Registrar.

(55) Names of the different joint stock companies in which the directors of a bank hold similar offices should be clearly indicated in the register of directors.

(56) There should be a provision enabling shareholders not only to inspect the register of members but also to take copies or extracts. This would involve amendment of Section 36 of the Indian Companies Act.

(57) Creation of an office of Registrar of Banks.

(58) Prohibiting the opening of a new branch by any banking institution in India without the permission of the Central Banking Authority and provision requiring information regarding closing of branches.

(59) Provision requiring the permission of the Central Banking Authority for opening savings banks.

(60) Prohibition of amalgamation of banking institutions without the permission of the Central Banking Institution.

(61) Prohibition to acquire controlling interest in banking institutions without the disclosure of such information to the Central Banking Authority.

(62) Prohibition against any party, firm, institution, or company operating through a foreign country acquiring controlling interest in any institution doing banking business in this country.

(63) Special safeguards for protecting the interests of depositors and other Indian creditors in the event of winding up of non-Indian banks.

(64) Proposal that depositors of small amounts may be given protection and preference by law.

(65) Provision to the effect that a certificate should be obtained from the Advocate General or from the Registrar of Companies before anybody takes criminal proceedings against a banking company.

(66) Amendment of Clause VI of Section 126 of the Indian Companies Act, under which an application may be filed for the winding up of a company "if the court is of opinion that it is just and equitable that the Company should be wound up", so as to exclude banks and other credit institutions from the operation of the section.

(67) With a view to preventing bear raids every seller of a bank's shares should be required to give the actual number of shares at the time he sells them.

(68) Whether form F of the Balance Sheet prescribed by the Indian Companies Act should not be amended so as not to require banks to show separately debts in respect of which the bank is fully secured and those for which it holds no security other than the debtor's personal security, as such a provision is believed to affect a bank's policy in regard to unsecured advances.

ENCLOSURE XII.

FINANCING THE CURRENT NEEDS OF AGRICULTURE.

About 230 million people or 73 per cent of India's population (according to the census of 1921) are supported by agriculture. It is the first source of India's economic life. In our opinion its future development to a large extent depends on the creation of prosperous agriculture. A large percentage of the Indian cultivators are at present deeply in debt. There are many reasons for this. The principal question with which we have to deal is how to supply cheap and suitable credit to them in order to finance their activities and improve their conditions.

The supply of cheap credit, even credit without interest, is only of advantage to the agriculturist if production is, or can be made, profitable and his indebtedness decreased. Cheap credit alone will not produce sound agriculture in India. The social and economic conditions of the cultivator are—according to our information—so unfavourable that it is difficult for him to obtain a net profit and so to get rid of his debts. That is the main reason why the question of financing Indian agriculture is a difficult problem.

Some of the unfavourable conditions may be mentioned here:

1. Uncertainty concerning most crops in parts of India owing to drought conditions.
2. System of land tenure.
   - (*a*) Prevailing tenancy system.
   - (*b*) Small size of holdings and their fragmentation.
   - (*c*) Insufficient legal protection of the tenants with regard to terms of lease.
   - (*d*) Joint family system.
3. Inefficient marketing of produce.
4. Illiteracy.

An energetic agrarian policy of reform is necessary for the purpose of creating *profitable* agriculture under modern conditions. Unless this is brought about credit will remain weak and in consequence the command of cheap money beyond the power of the ryot. Government have undoubtedly done good work for agriculturists with regard to consolidation of holdings and irrigation of land by canals and sinking wells. Nevertheless the field of activity in this direction is still very large, even apart from the area which is still available for the purpose of creating further settlements.

The chief agencies for loans to agriculturists have been:—

- (*a*) Money-lenders (both professional and non-professional, including landowners, merchants, traders and other casual money-lenders.)
- (*b*) Co-operative Credit Societies.
- (*c*) Government (takavis).
- (*d*) Commercial banks and bankers.

Our task is to examine the most suitable agencies. We have to bear in mind the special features of agricultural requirements as compared with industry, commerce and trade. The period for turning over invested *working* capital in agriculture is longer than is usually the

case in commerce. Agriculture also requires a relatively high fixed capital (compared with the working capital) to be sunk for long periods, for instance in:—

(*a*) Land Improvements (irrigation and wells).

(*b*) Purchase of Land.

While working capital for agriculture is required for at least a period of 6 months to one year, capital for land improvement and purchase has to be invested for an indefinite period of years.

A repayment of the invested capital can only be made according to the net profits obtained from the investments. Credit agencies for agriculture have to accommodate themselves to its special requirements. Fixed credits for long-term loans to agriculture cannot therefore be a field of activity for *commercial banks*. It is only the supply of short-term credits for financing the current needs of agriculture which is suitable for Commercial Banking.

On the other hand, commercial banks can only in their own interest deal with more substantial people than most agriculturists in India are and must realise their money advanced in a shorter time than the average agriculturist is able to comply with. With regard to this divergence between commercial banking and agricultural credit it is difficult to see how under Indian conditions commercial banking can develop banking relations to any appreciable extent direct with the cultivators.

The *money-lenders* (professional and non-professional) have up to now been the chief agency for financing the Indian agriculturist. They have undoubtedly rendered a valuable service to agriculture. On the other hand they charge relatively high rates of interests, especially from those people who cannot give any substantial security, in other words, from the poorest and weakest people. It may be conceded that these high rates are equivalent to the risks run by the lenders and loans are not usually being advanced on grounds of generosity or philanthrophy, but for making profits. We are however of the opinion that it is urgently necessary to protect the agriculturists against usurious money-lenders. We do not think that the aim can be achieved by strengthening the "Usurious Loans Act of 1918."

The best weapon against the usurious dealing of money-lenders is undoubtedly the *co-operative movement*, both credit and marketing. The experience of other countries, especially in Germany, prove this. The Governments of the provinces in British India have been making the utmost endeavour to expand the work of co-operation in their respective Provinces for the last 25 years. Notwithstanding the efforts made in British India only about 15 million people or on an avrrage 6 per cent. of the total population of about 247 million† people have up to now been touched by the movement. All possible endeavour should be made to make the co-operative movement more efficient. Co-operative credit societies are decidedly the most suitable credit agencies for financing the current needs of the agriculturists. This has been the most useful and successful work of the co-operative movement, in many European countries and especially so in Germany. The special structure of the co-operative organisation based on self-help enables it to provide relatively cheap short-term working capital. It

† Census of 1921.

is a fundamental principle of the co-operative credit business to procure the requisite means by collecting call and fixed deposits from members and non-members. The accumulation of share capital and reserves is of the greatest importance for the financing activitity of a co-operative society, but it can only play a second part with regard to the limited means of the members. It is due to this that the co-operative credit societies are not able to supply to a large extent long-term credits to agriculturists. It may therefore be said that it is necessary for the Indian co-operative credit movement to draw its fullest attention to the development of short-term credits, *i.e.*, the supply of working capital. Business on a larger scale in long-term credits makes it impossible for the society to finance current credit needs and to repay promptly deposits when required.

Long-term credit to agriculture for land improvement, purchase of land, etc., requires special institutions. We shall deal with this in a special paper. Here it may be stated that co-operative credit societies which collect deposits are not suitable agencies for the supply of long-term mortgage credits. It is therefore wrong to expect that co-operative credit societies can discharge to a great extent the old debts of the agriculturists due to the money-lenders.

It will be a task of the banking institutions for *long* term credits to consider the possibility of taking over old debts of landowners and thus enabling them to repay their debts within a reasonable period. It is only through efficient mortgage banks that the problem of discharging the Indian agriculturists' old debts will be solved and only under the above-mentioned condition that the agricultural production is or can be made profitable.

What has to be done to make the co-operative credit movement more efficient for its principal task of supplying cheap working capital. In this respect we have to make the following main proposals referring to the various defects of the co-operative system stated in the Provincial reports.

I. *Primary local societies.*—(1). The first fundamental principle of co-operation is *self-help*. All possible endeavours should therefore be made throughout India to make the local society a self-supporting institution, more or less independent of the credit of the central banks. The local society should make every effort to collect all free money available in its district of activity. Thrift has to be induced and promoted mainly by education. The local society has as in other countries to become the "savings and loan" bank for the village, the balancing centre for demand and supply of money. Up to now the primary societies are in nearly all provinces, with the exception of the Bombay Presidency almost exclusively only agencies for the distribution of money supplied by the Central and Provincial Banks. That is an unsound position. By good management and through audit preventing failure of co-operative credit societies confidence will be inspired and investors will be induced to deposit their spare money with these societies. A reasonable rate of interest allowed on deposits especially on savings, will promote the saving habit. With regard to primary societies, we are of opinion that low debit rates of interest can only in course of time be obtained by starting with relatively high credit rates. In this respect we suggest that members should on principle receive a somewhat higher rate of interest on deposits than non-members. This will induce many people who now lend out money to deposit it with a solvent credit society so that the debit and credit rates can automatically be lowered according to the increasing supply

of money. It is wrong in our opinion to start with low credit rates in order to get low debit rates. Low credit rates will maintain the money-lending business of individuals possessing money. Wt are not in favour of the policy of Co-operative Departments of Provincial Governments standardizing the rates of interest for deposits and credits in the credit societies throughout the whole province. This may hamper the activity with regard to the deposit business.

(2) More *self-administration* and *self-responsibility* for the local society according to the co-operative idea.

(*a*) We propose to give the Managing Committee (consisting of 5 or 6 people) more power with regard to the Management. Fixing credits for each member should not be a matter of the "General Meeting" but of the Managing Committoe in accordance with a special "Supervising Board" consisting of 3-6 people. A special task of the General Metting shall in this respect be:—

(*aa*) To fix the maximum credit limit up to which credit may be granted to members in so far as good securities are procured and the character of the applicant is satisfactory.

(*bb*) To sanction credits to members of the Managing Committee and the "Supervising Board".

(*b*) It shall be laid down in the Co-operative Societies Act and the By-laws that the members of the Managing Committee and "Supervising Board" are jointly and severally responsible for credits granted without the requisite care.

(*c*) A "Supervising Board" with the task of supervising the management shall be prescribed by the co-operative law. A special task of this Board shall be to fix credits and examine securities in consultation with the Managing Committee. This Board would be of the greatest importance for urban societies with a bigger number of members.

(*d*) Every possible endeavour should be made by the Co-operative Department or by the undermentioned "Auditing Unions" to get a well trained Secretary and Treasurer for each society. They shall receive a fee according to their work. The experience in other countries of employing school-masters and retired officials in these capacities has been very satisfactory.

(3) Membership must not be confined:

(*a*) To a special creed, caste or calling, to agriculturists or a special class of them. Artisans, small traders, retired officials, etc., may be included.

(*b*) To a certain maximum number of people (Bengal 560, Bombay 100). The creation of credit societies with less than 25 members cannot, however, be advocated.

(4) Greater elasticity of credit.

(*a*) We think it necessary that credit limits and the requisite securities should be fixed for each member requiring credit—at once at the beginning of a new business year. In case of real need money should be advanced within the fixed credit limits and according to the means of the society. Loans should not be given in one lump, but successively according to the needs of the debtor. Granting credits on current account and cheque transactions may be introduced in advanced societies.

(*b*) Repayment of credits should not be restricted to the same period for all debtors but should be fixed according to the special needs of the members. The period of repayment of short-term credits should not under any consideration exceed 2 years.

(*c*) The Managing Committee and Supervising Board must be allowed to lend out repaid money to members without asking the Central Bank.

(*d*) Every co-operative credit society with deposits has to keep a reasonable cash balance with a Central Co-operative Bank or should always have line of credit with it for repayment of deposits.

(5) A Co-operative Society has to be free of politics. (See Madras Report, page 162.)

II.—Central Co-operative Banks.

The Central Banks should be the balancing centres for the primary co-operative credit societies and the financing institutions for other kinds of societies (for instance, supply and marketing societies) in so far as financing cannot be done by primary local societies. In order to make the Central Banks efficient for this task we propose—

(1) Exclusion of individual members with the exception of the Managers of Central Banks who have to become members. This proposal will suggest that: no credits shall be granted to individuals.

(2) Limited liability with a "Reserve liability" of about 5—10 times the share. No share undor—say Rs. 300.

(3) The working sphere of a Central Bank should be neither too small nor too large. The ideal would be one Central Bank for each political district. Long distances and bad means of communication may, however, make it necessary that more than one Central Bank should be established in that area. Consideration, however, might be given to the possibility of establishing sub-offices or branches under such conditions in preference to starting other Central Banks. If it can be avoided we are not in favour of starting several Central Banks in a political district.

(4) All money transactions with primary societies should be done and credits should be granted on current account, in order to speed up the activity between the primary societies and the Central Banks. Dealing in cheques and clearing instead of ready money should be promoted.

(5) Top balancing has to be done with a Provincial Co-operative Bank.

(6) The Management of a Central Bank should be in accordance with businesslike and co-operative principles. Managers of the best character, well trained in banking and co-operation are essential.

(7) The joint interests of the Central Banks of a Province should be promoted by common meetings held several times a year.

III.—Provincial Co-operative Banks.

(1) These shall be the Apex. Banks for the co-operative movement of a Province. They have to link up the general money market and commercial banking with co-operative banking.

For this reason, under normal conditions, they should not deal with primary credit societies (to be found in the Bombay Presidency) but only with Central Banks.

(2) We are in favour of the establishment of a Provincial Bank for the United Provinces.

(3) We are not in favour of Provincial Co-operative Banks being established under the Co-operative Societies Act with regard to the liability of primary societies and Central Banks to the Provincial Banks. The failure of a Provincial Bank under such conditions might very seriously affect if not indeed destroy the whole co-operative movement in a Province. Provincial Banks should therefore be transformed into registered institutions with the financial participation of the Provinces. This suggestion is based on the experience in Germany.

(4) An Apex Bank for the co-operative credit movement has to be managed on ordinary business principles with this proviso that the business has to be accommodated to the special requirements of co-operation.

(5) We are against co-operative Apex Banks' advancing loans to Land Mortgage Banks for long-term mortgage credit. We cannot approve the issue of mortgage debentures as is done in Bombay, Madras and the Punjab.

(6) It is a special task of the Provincial Banks to develop facilities for the transfer of money on behalf of the co-operative movement (clearing system).

(7) We see no need to start an "All-India Co-operative Bank".

IV.—Audit of Co-operative Societies.

It is of the greatest importance to have a thorough *audit* in order to prevent bad management and embezzlement, and to make the co-operative work so efficient as to inspire the confidence of the investing public. The audit prescribed by the Co-operative Societies Act, 1912, has up to now, as a rule been effected by Government Officials. There are, however, exceptions—in the Punjab for instance the audit is being performed by officials of the Punjab Co-operative Union Ltd., under control of Government officers. With regard to lack of auditing Government staff in Bengal "many societies were audited by the supervising staff of the Central Banks" (Bengal Report, page 152). In some Provinces special *supervising* Unions have been formed, as for instance in Bombay and Madras. In other Provinces for instance Bengal—referred to above—Central Banks are supervising the affiliated co-operative societies. Several reports express the opinion that the legal audit of co-operative societies has not been efficient enough. Reasons have been indicated. As a serious drawback must indeed be considered the frequent change of Registrars responsible for the audit and of other high Government officials in charge of the co-operative movement. An efficient Governmental audit would require that the Provincial Governments keep a special staff well trained in co-operation, the different activities of the various kinds of co-operative societies, in book-keeping and in audit. *The position of a Provincial Registrar should be filled only by officials well trained and experienced in co-operation.* Considering these points and the efficiency of the auditing system of Auditing Unions of European countries like Germany, Austria, etc., we suggest that Provincial Governments should form special Auditing Unions for each political District with at least, say 500 co-operative societies—otherwise one Union for 2 Districts—and join all District Unions of a Province to an apex Provincial Union.

The Auditing Unions in the countries referred to above are registered associations formed by the co-operative societies, central and primary, credit and other kinds of societies within the working district of the Union. These Unions with the purpose of effecting the "legal" audit of the affiliated co-operative societies have to be licensed by the Government. The latter shall be informed of and are always allowed to attend the General Meetings of the auditing Unions. The license conferred on a union can be withdrawn by the Government in case that union does not discharge its duties with regard to auditing the affiliated co-operative societies. There is, however, no interference in the management of such a union. It combines in its activities both audit and supervision of the societies, training a special staff for this purpose and all work connecting with promoting co-operation.

Taking into consideration the special conditions of India, we are of opinion that the above proposed Auditing Unions should be managed by special trained Government officials. The staff of these unions shall, however, be employed and paid by them. In order to make the official management more efficient we propose;

(*a*) The societies, primary and central, affiliated to such a union should be represented in the Managing Committee.

(*b*) Special non-official Advisory Boards for the most important activities of the affiliated societies should be formed and heard on important questions by the Managing Committee.

The most important tasks of the Auditing District Unions shall be:

(*a*) Audit of the affiliated primary societies.

(*b*) Supervising and advising the existing societies.

(*c*) Forming new co-operative societies according to the needs of the population.

(*d*) Training a special auditing, supervising and advising staff for co-operation.

(*e*) Training Secretaries and Treasurers for primary societies.

(*f*) Expanding the idea of co-operative work especially by attending meetings.

The future success of the co-operative movement in India will more or less depend on a thorough audit requiring a well trained staff from the bottom to the top. Most careful attention should therefore be devoted to the tasks mentioned under point (*d*) and (*e*). People with the best qualities of mind and character are essential. It should be a rule that no auditor without thorough apprenticeship, no inspector or a higher official of a union shall be employed without having passed the lower stages of co-operative work.

There should be a *close connection between Auditing Union and the affiliated Central Bank(s)*, an interchange of important reports, statements on primary societies in order to avoid a second supervision of them.

The *Provincial Unions* as the apex of the District Unions should be run as well as the latter by Government officials with the Registrar at the top. He shall be assisted by a Financial Adviser and a Chief Accountant proposed in another paper. The staff should be non-officials, employees of the Unions. The Managing Committee shall be supplemented by representatives of the District Unions and the Provincial Co-operative Bank.

The main tasks of the Provincial Unions should be :—

(*a*) Supervising the affiliated District Unions by collecting information, looking after their work, giving advice and instructions, thereby taking into consideration the special conditions of the Districts.

(*b*) Audit of Central Banks and other central co-operative societies.

(*c*) Representing the whole co-operative movement of a Province and attending to its interests.

(*d*) Arranging meetings of the Managers of the District Unions, Central Banks, and other central co-operative societies in order to deal with special subjects of the actual co-operative work. The meetings should be held at least every three months.

(*e*) Special Committees with advisory power should be constituted for the most important subjects of co-operative activity, especially for :—

Auditing.

Co-operative Credit.

Co-operative Marketing.

The members of these Committees should be officials and non-officials.

(*f*) Instituting special departments for statistics and for the forms and books required by the societies of the affiliated District Unions.

(*g*) Publishing a Magazine in order to spread the co-operative idea and to bring forward the co-operative work.

The various Provincial Unions in India shall have their apex in the *"Central Co-operative Council"*, proposed in another paper. This Council should serve the common necessities of the co-operative movement all over India.

The Co-operative Socities Act, 1912, should be amended in accordance with our proposal of forming "Auditing Unions".

Financing the Unions.

The expenses of the *Auditing District Unions* have to be covered by contributions from the affiliated central and primary societies.

The Provincial Unions shall be financed by contributions of the District Unions and the Provincial Banks. For the first few years it may be necessary that the Co-operative Unions should be subsidized by the Government.

V.—General Remarks.

The future efficiency of the co-operative movement in India will depend first of all on the activity of the leaders and their feeling responsibility. Attention should especially be paid to creating a well based, consolidated, self-supporting co-operative credit movement. Not the number of societies in a Province is decisive but *their* efficiency. Inefficient societies discredit the co-operative work. It is not so difficult to form new societies as to run existing societies on sound lines. If the efficiency of the co-operative movement in India is to increase to the same extent as the number of societies has been increased in the times gone by, then hard work will have to be done. Full assistance

of the Government, active and financial help for the necessary organising work will probably be necessary. It should, however, be the aim to create a self-supporting and responsible co-operative movement. Co-operative work will encounter great difficulties, as it has in the past, which can only be mastered by energy and patience.

Co-operative work will considerably be forwarded by the efforts of the Government to establish in the villages primary schools for removing the illiteracy of the people.

In financing Indian agriculture, the *Government* will always have to help in times of emergency in consequence of crop failures. Special fields of Government's activity will also remain, land improvement by consolidation and irrigation and settlement of people.

As we have pointed out Credit Co-operative Movement will and can do the best work in the supply of short-term credit in order to finance the current needs of the affiliated members. The Co-operative Movement in India will improve and remain sound if it concentrates on this task, remembering that co-operation is not only of the greatest economic but also of ethical and moral importance for tiding over social and economic contrasts.

ANNEXURE.

"FINANCING THE CURRENT NEEDS OF AGRICULTURE".

Main References.

(*a*) General References.

(1) Memorandum "Agricultural Credit" supplied by the Secretary.

(2) "Some Co-operative Statistics" as on the 30th June 1930, supplied by Secretary.

(3) Provincial Reports.

(4) Impressions and facts got during itinerating in India.

(*b*) Some special references to the Provincial reports may be given on our proposals, made on:

I.—PRIMARY LOCAL SOCIETIES.

Point (1) Bengal page 133 (above), 135 (below), 136. Bihar and Orissa page 148 (paragraph 282). Bombay page 247 (recommendation 125). Centrally Administered Areas page 239 (paragraph 126).

Point (2) (*a*) Bombay page 159.

(*aa*)—

(*bb*) Bengal page 153 (Loans to panchayat) page 254.

(*b*) Centrally Administered Areas page 223 (paragraph 117), 232 (paragraph 120).

(*c*) Bengal page 153 (above).

(*d*) United Provinces page 176 (below).

Point (3) (*a*) Bombay page 247, 248 (recommendations 119, 133, 134, 135). United Provinces page 185 (paragraph 297).

(*b*) Bengal "Rules under section 43 of the Co-operative Societies Act, 1912" paragraph 27. Bombay 156 (below).

Point (*d*) Bengal page 153 (paragraph 275), 158, 159, 160. Bihar and Orissa page 135 (paragraph 251). Madras page 155 (paragraph 324), 248. United Provinces page 188 (paragraph 302). (*a*) Bengal page 255 (recommendation 184). Bombay page 247 (recommendations 115, 116 and 117). Madras page 156 (above). (*b*) Centrally Administered Areas page 235 (paragraph 123). (*c*) Madras page 151 (paragraph 317) (*d*) United Provinces page 196.

Point (5) Madras page 162.

II.—Central Co-operative Ba

United Provinces page 196 (paragraph 314).

Point (1) Bengal page 53 (above) 146, 156 (paragraph 285).

Point (2)—

Point (3) Bengal page 153, 154 (paragraph 276), 254 (recommendation 171). Bombay page 160, 249 (recommendation 141). Bihar and Orissa page 161 (paragraph 307).

Point (4) Bengal page 153 (paragraph 275), 254 (recommendation 170). Bihar and Orissa page 135 (paragraph 251). Bombay page 159. Madras page 155 (paragraph 324). United Provinces page 188, 189 (paragraph 302).

Point (5) Bengal page 158 (paragraph 295), 256 (recommendations 194, 196). Punjab page 110 (paragraph 156).

Point (6) Bombay page 174. Centrally Administered Areas page 223 (paragraph 117). Madras page 162 (paragraph 340).

Point (7)—

III.—Provincial Co-operative Banks.

Point (1) *1st Section* Bombay page 178, 294 (recommendation 147). *2nd Section* Bengal page 154 (above), 148 (below), 158 (paragraph 293) page 253 (recommendation 156). Bombay page 36 (above), 171. Punjab page 109 (paragraph 165).

Point (2) United Provinces page 193.

Point (3)—

Point (4)—

Point (5) Bombay page 171. Madras, "Balance Sheet of the Madras Central Urban Bank 30th June 1930". Punjab page 43, 110.

Point (6)—

Point (7), Madras page 170, 249 (recommendation 65).

IV.—Audit of Co-operative Societies.

Bengal page 148 (above), 151, 152 ("Paucity of Government staff") page 253 (recommendations 158, 164, 165, 166).

Bihar and Orissa page 247 (paragraph 490 point 9).

Bombay page 161, 247 (recommendation 120).

Centrally Administered Areas page 231.

Madras page 163.

Punjab page 160.

United Provinces page 179 (paragraph 287), 181 (paragraph 290), page 182 (paragraph 291), 193 (paragraph 309), page 343 (recommendation 131).

ENCLOSURE XIII.

LETTER FROM MR. A. P. MACDOUGALL, TO THE SECRETARY, INDIAN CENTRAL BANKING ENQUIRY COMMITTEE, DATED THE 19TH MARCH 1931.

I have made certain modifications in the two memoranda I placed before the Committee in the light of our discussions and forward herewith the memoranda so modified.

Land and the Cultivator.

When a specialist is called in to prescribe for a patient suffering from debility he makes a thorough diagnosis. When experts are asked to advise on the affairs of an industrial company they must make a similar investigation.

The economic position of the Indian cultivator is not healthy. He is deeply in debt. If a remedy is to be found we must examine the reasons. His economic structure is built up as follows :—

1. Land.
2. Ownership and tenure.
3. Climate
4. Cultivation.
5. Education.
6. Marketing..
7. Finance.

We shall make a brief review of each of these.

Land.—It has been stated that the soil of India is naturally poor. This is not correct. It has become poor. The great river valleys must at one time have been amongst the most fertile in the world. In Denmark and Germany the greater part of the land in its original state consisted of barren wastes of sand growing nothing but gorse and heather. By hard work and education it has become very fertile.

Countless generations of cultivators have reduced the natural fertility of Indian Lands until the soil is now producing almost the minimum quantity per acre. Statistics with regard to wheat clearly prove this—9½ bushels per acre is the average. It is, perhaps, the lowest of any country. Continuous cropping without manure will impoverish the richest soils. There are other factors such as the deplorable waste of manure by its use as fuel. In western countries fertility is maintained by using straw and the residue of crops as manure. In India all the straw is used for cattle fodder. If the output per acre in terms of wheat wore raised to that of France, the wealth of the country would be increased by £669,000,000. If the output were in terms of English production it would be raised by £1,000,000,000 per year. Yet England is by no means highly cultivated. This does not make any allowance for part of the land in India producing two crops per year. In the other countries referred to only one can be grown. This advantage should equal any loss from drought. It has been stated that the very small holdings in India are responsible. This

is partly true but Denmark is a country of small holders where by education and co-operation, they have succeeded in building up the most productive agriculture in the world. In terms of Danish wheat production the increased wealth to India would be £1,500,000,000 per year. It is not, therefore, the soil that is responsible for the poverty of Rural India. The advice to grow more is in no way intended to encourage unbalanced production which may injure the cultivator instead of helping him.

Land Ownership and Tenure.—No country can prosper unless these conditions are sound. The cultivator must have security and the assurance that for whatever improvements he makes he will reap the reward. Land holding under zemindars who do nothing to improve the conditions of their tenants and little or nothing to improve the standard of cultivation is not a good system. We refer to them elsewhere. All zemindars are not bad landlords, nor is the major portion of the soil of India held by them. It is held by the ryots themselves, as owners or as tenants under Government. Peasant proprietorship and tenure under Government are the best systems of land holding known to the world. We have, therefore, to look further afield for the causes of poverty on lands held from the State or under peasant proprietorship. One of these is the fragmentation of holdings. We have heard of one farm of 12 acres being broken into a hundred scattered plots and of a field, two furrows in breadth and two miles in length. There can be no prosperity under such conditions. It is a result of inheritance laws. Somewhat similar conditions prevailed at one time in Europe, though they did not reach such lengths of absurdity. Legislation was passed in order to remedy this state of affairs. In India a move has been made through co-operation to bring about a remedy. Land Consolidation Societies have attained some success. If India waits until this reform is effected by co-operation mainly generations will pass. Not only so but it will be costly. It would require a large staff in each province concentrating on nothing but this section of co-operative work. *We suggest that the most urgent requirement before the country to-day is the passing of legislation to bring consolidation of holdings into being at the earliest possible moment.* Agriculture in India will never make real progress until the holdings of the country are consolidated. Progressive farming is impossible. It entails waste of time, energy and wealth. The longer the delay in facing the need, the greater will be the danger of India having to face social convulsions which will endanger her whole future. Sufficient evidence is forthcoming from what has already been done to prove that the ryot would derive enormous benefit. Public opinion must be awakened to the need of passing legislation, not only to save the ryot but to save the country. As a practical agriculturist I am prepared to say that the loss from this cause alone, even under primitive cultivation must amount to ten rupees per acre per year—220 crores of money. If the zemindar problem is solved together with the one which we have just referred to, then India would have a land tenure system that could compare favourably to that of any country in the world. The smallness of the individual holdings has been blamed for the poverty of the ryot. A large proportion are not economic units even if consolidated. The average is small and varies from Province to Province. We have no statistics at hand, but our impression is that such holdings in Denmark produce more food per acre than those of 50 acres in that country. If a reasonable livelihood is to be gained from small holdings, cultivation must be carried on in an extremely intensive form. This is not done in India.

The breaking up of holdings is still proceeding. This must be put an end to. A similar position arose in France where legislation was passed in recent years prohibiting any further fragmentation. Small holdings are no handicap to the production of the maximum amount of produce per acre. The size of the farms in the Channel Islands are no greater than in India. The soil is no better nor the climate. Per acre cultivated these Islands produce more food than any other part of England. Intensive cultivation is therefore of vital necessity. This can only be brought about by intensive education. The small farmer, if he had the knowledge, has the time to make each square yard of his small farm an oasis of fertility. The small size of the farms is a handicap, to the production of surplus wealth, but this makes it all the more necessary that the country should realise that the highest possible standard attainable by man should be the goal to aim at. At present it is the lowest.

Climate.—It has been said that the climate of India with its uncertain rainfall makes for poverty and famine. Certain districts suffer, but this could be very largely counteracted by the consolidation of holdings, by the development of irrigation and by giving careful attention to the possibilities of conserving moisture. India as a whole does not suffer from climatic conditions. They are such, that if made proper use of, she would be one of the wealthiest agricultural countries in the world. The possibilities of fruit culture have hardly been touched. They are, nevertheless, very great.

Cultivation.—The land is not cultivated as deeply as in western countries. It may be that under the climatic conditions prevailing in India, deep cultivation is not required. It is an advantage where hard pan is formed by the continuous ploughing but in India the intense sunshine in itself breaks up this pan. The soil is reasonably clean and free from weeds. Advantage would arise from the introduction of modern ploughs and sowing machines for seed. The great advance which must be made is by improving the fertility of the soil, and by using improved seeds and at the same time concentrating on growing crops of most value per acre. We shall give three simple examples to show what can be done. The Lyallpur Experimental Farm, Punjab, has raised, its milk yield by breeding cows for milk, from an average of 5 lbs. per cow per day to 12 lbs. The yield of wheat is 25 maunds per acre. The average for India is about 7 maunds. Modern varieties of sugar-cane produce 80 maunds of gur per acre, old varieties 20 maunds.

Education.—It is only by determined effort of the nation that sound progress can be made. The education of the ryot must be one of governing factors. It is essential that it should, in the first place, be based on agricultural education. Denmark, in less than half a century raised itself from a bankrupt country to prosperity by one means only—the development of her one asset—the land. Her land in 1850 was no better farmed than Indian soil is now. It was the poorest in Europe. It is now the richest. Education was the golden key.

Marketing.—It is little good o bring millions of acres under cultivation or increase the produce of the land to the value of millions of pounds per year, unless the necessary steps are taken to ensure that these products will secure a ready sale. Marketing *will* be dealt with in another paper.

Finance.—To remedy existing evils by credits alone may alleviate the misery of the ryot as an opiate relieves pain. It will not cure

the troubles from which the misery arises. The credit problem is only part of the whole an important part we admit. The suggestion which we make elsewhere will, we hope, be of some assistance in developing long and short-term credits. If the ryot is to be relieved of his crushing load of indebtedness, co-operative effort must not be confined as it is so largely at present, to Credit Banks. The movement must work in close co-operation with the educational authorities, the agricultural research department and the marketing organisation which must be established. The mind of the nation must be awakened to the enormous possibilities there are in the development of the wealth of the land of India and thereby ensuring moral and material progress.

The proposals which we shall make and which are based on the review of the Rural Problem as outlined in the above statement can be summarised as follows:—

1. A Central Co-operative Council should be established:
   - (*a*) To co-ordinate all co-operative interests throughout India.
   - (*b*) To organise an educational centre for the training of an efficient staff in the principles of co-operation including banking, accounting, agriculture, rural economics and social welfare.
   - (*c*) To promote co-operative marketing.
   - (*d*) To study the development of co-operation.
   - (*e*) To stimulate voluntary efforts on behalf of the movement.
2. Proposals with regard to Mortgage Banks.
3. The introduction of sound banking and accounting methods.
4. To consider the possibility of utilising the services and capital of the money-lender.
5. Proposals with regard to the Reserve Bank and the introduction of the Current Account system.
6. Marketing. We propose that a National Marketing Organisation should be established.

We are of opinion that it is a matter of vital necessity to organise marketing especially of export produce.

A Central Co-operative Council.

The Royal Commission on Agriculture and all other authorities who have studied the subject are agreed that the economic and social improvement of the peasant can best be accomplished by organised self-help through co-operation. It is ideal which must be aimed at. If real progress is to be made, the full magnitude of the task must be realised. It is one of the greatest which any country has ever attempted to bring into being, but it is also one of the most difficult. As at present constituted, generations will pass before even the majority of cultivators are touched by the co-operative movement.

Co-operation throughout India has suffered seriously from the lack of a co-ordinating authority. Provincial Governments have been

sympathetic. They have given considerable financial and administrative support, but their outlook has been provincial. In many cases it has been in the nature of financial support in order to stave off disaster arising from mis-management. No clear line of advance has yet been mapped out nor has any comprehensive scheme been evolved which would enable the united strength of the Nation to be brought to bear on this all important movement. It has up to now largely confined itself to the short-term credit problem. This is only a very small part of the work which must ultimately be undertaken if the goal which is aimed at is to be achieved. The formation of short-term credit societies is the simplest part of the whole. In the Madras report the following statement appears—

"The ryot is eager to borrow but is not so eager to repay". It is easier to establish a short-term credit society in a village than it is to form a Rural Reconstruction Society, a Marketing Society or a Land Consolidation Society. We have indeed reason to believe that many credit societies have been formed in villages under conditions which afforded no chance of real success. In certain of the provinces the co-operative movement has had a surplus of money to deal with. Inspectors and the general staff are human. Their advance in the service has been largely dependent on the statistical progress made by them in the formation of societies. During our tour throughout the country we formed the impression that such instances were by no means isolated. Inter-provincial rivalry may also have something to do with this unsatisfactory and unhealthy position.

Another weak factor is the lack of educational facilities for the technical staff. We refer to the inspectorate, the banking, accounting and propaganda staffs. Mr. Darling in his report for 1931 on co-operation in the Punjab makes the following statement "..... yet through my tour I was forcibly struck not only by the lack of understanding on the part of the general body of members of most of the districts but still more by the inability of the ordinary sub-inspector to teach some are good lecturers, few are good teachers ....." It is impossible to frame a more damning criticism of co-operation as it exists in the most progressive province in India. It is at the same time an unconscious tribute to the success of the leaders, who in spite of this handicap have made progress. If this can be said of the Punjab, a province that has had a unique record of having had four great leaders of co-operation, it is easy to realise what must be the position in other provinces. Education in the principles of co-operation is absolutely essential if real progress is to be made.

How is the staff to be taught to teach?

Education can never be brought to the doors of the village if the staff are not educated. It is therefore essential that the provincial authorities should have a full understanding of their requirements in this respect. It would be a waste of local effort and of public monies to suggest that an educational centre should be established in each province, if one central school would suffice. Education of a high standard is of such vital importance that it would require as heads of that school the best teachers that India could produce. If each of the provinces were to establish such a school this would mean not only a great waste of public monies but the lowering of the standard of education. A school under a central authority would be less costly and more efficient. It has been suggested that co-operative classes held in the Universities would be sufficient. We do not agree. The training of a

co-operative staff should be looked on as a highly technical and specialised subject and of sufficient importance to warrant a school of its own. The subjects which would amongst others have to be studied are educational propaganda, progressive farming methods, banking, accounting, rural economics and rural industries. Co-operation is not philanthropy. It is a business and must be run on business lines. Even the educational side must be based on the business of farming. There is not a country in the world where there is co-operation that the neglect of this fundamental fact has not resulted in serious financial losses and waste of time and energy. As training is necessary to the business man under modern conditions, so is it to the co-operative organiser.

In another memo which has been issued, we have referred to the need for establishing Rural Reconstruction Societies. This part of the movement is likely to prove to be much more difficult than the formation of credit societies, but the ultimate result to be attained will be of distinctly greater value. Reconstruction societies would be a means of breaking down customs which are a severe drag on the economic and social progress of the nation. This in itself will have an immense effect on reducing the debt load of the people. Thrift will be encouraged in many other ways through such societies. The simple principles or improved farming methods can also be introduced, such as the use of better seed, better cultivation and the conservation of manners. Through such societies the villagers could be taught to combine against the oppression of the zemindars. We have actually seen a Rural Reconstruction Society which has made itself responsible for the payment of the rent of the village through the society. If this became general then it would obviously be extremely difficult, if not an impossible task, for the zemindars to force unduly high rents from their tenants or compel them to give free service. Without an educated staff the formation of such societies is impossible.

The co-operative movement is of such importance that it is necessary to have an agency to co-ordinate the whole throughout the whole of India. Experience gained in one province should be made available for the others. There should be concentration of the combined thought of all the provinces at a given centre. Research work on all the many and varied problems should be constantly proceeding. If co-operation in any province is not advancing on sure lines, then there should be some authority representing the whole movement which would be responsible for overcoming the weakness. The army or co-operators in India can no more afford to have a weak division than can an army in the field. If the banking section is weak in one province then it reacts on the financial security of the others and on the confidence of the public in the stability of co-operative banking in general. Lack of confidence means dear money.

Provincial boundaries are political. They are not economic. The interests of the ryots on the borders of all the provinces are identical. It is only by co-ordination of all, these interests through one directing channel that the combined strength of the cultivator can be made effective. If such a body was now in being and a united request was put forward by the Central Council to demand legislation with regard to consolidation of holdings more than half the battle was won. Banking and accounting should also have a central organisation which would act as a foundation for these two vital points of structure.

Co-operative marketing is another line of research for which a central organisation is essential. The general marketing of the Nations' produce must be looked on from a broader aspect than would

be possible under strict co-operation. This is referred to in another memo. in which it is suggested that a National Marketing Organisation should be established. It would, however, be the business of the Central Co-operative Council to work in conjunction with this body. The importance and magnitude of the work which has to be done is such that it is essential that a Central Co-ordinating authority, to be called a Central Co-operative Council, should be established under a special department of state. This department should be a Ministry of Agriculture and Land. It is in our opinion imperative that this Ministry should have no duties attached to it other than those concerned with the Rural economics. We understand that at present there are three port folios combined—education, health and land, and that there are also certain other subsidiary duties attached to this Ministry. The Ministry of Agriculture and Land should be relieved of health and education. We are also of the opinion that the Ministry should be divided into distinct departments with responsible heads in charge of each under a Minister and Secretary. In a subsequent memorandum on marketing it is our intention to suggest that a National Marketing Organisation should also be included in the purview of this Ministry. Unless full recognition is given to the enormous importance of the work to be undertaken, no good will result. At the head of each of these sections must be men of indisputable ability and powers of organisation. On the Co-operative Council for all India, there should be two representatives from each province. They shall be nominated by the Provincial Co-operative Unions. The Chairman shall be the executive officer in charge of the whole. The Provincial Governments should make themselves responsible for the costs of maintaining the Educational Institute. The Central Government should in the initial stage bear all other costs and salaries. As the co-operative organisation grows in strength, a levy from the Provincial Unions should ultimately enable the movement to finance itself. Real and speedy progress can never be made unless the resources of all India are utilised. We are of the opinion that if properly organised there are great numbers of people who would give voluntary services to the cause of co-operation. We are also, of opinion that a propaganda department conducted with vision could make use of the press in a manner which would be invaluable. There are many organisations which could be used with great effect in rousing and forming public opinion.

If a Council similar to what we propose had been in existence for the last few years and had been carried on with efficiency, the suggestions which we are now making would it is more than likely have already been in operation. Many enquiries have been held and numbers of co-operative experts, from every Province in India have visited Europe and other countries. There is not yet uniformity. The experience gained by such enquiries and visits should not be limited to one Province, but should be made use of by the whole co-operative movement throughout India. The longer the delay the more diverse will become the methods in operation in each Province. Ultimately unification will become impossible or at least incomparably more difficult. Even from the point of view of the desirability of establishing a unifying social force throughout India the opportunity of strengthening the amalgamation through the co-operative movement should not be lost sight of.

Mortgage Banks.

Mortgage Banks are institutions for the purpose of lending monies on long term investment on sound realisable securities to enable land-owners to secure the advantage of cheap money. Before they can be

recognised as a safe investment, certain alterations must be made in the laws of the land. In the Punjab and elsewhere the alienation of Lands Act makes it impossible to recognise land mortgages as a sound gilt edge investment. Where it is in operation it is not possible to secure the right to a free sale of land which through the default of the mortgage may have to be taken over by the lender. He has no claim to ownership; therefore a mortgage is not a mortgage under the correct sense of the term. Mortgage Banks can only recoup themselves against loss by letting the land to a tenant. This is not a sufficient safeguard. It is not for a bank to act as landlord on a large scale. The cost involved is too great. There is also a risk of deterioration of the holding through bad farming, the drying up of wells, alkaline troubles, etc. The cost of management of a large number of small scattered holdings is also a very serious handicap. These are only some of the many difficulties. In the Punjab, the most prosperous province in India, one third of the borrowers are defaulters. This is an impossible position for a mortgage bank to face with equanimity under the existing law.

We are of the opinion that unless the Act referred to can be amended, it will not be possible for a mortgage bank to function in such a way as to be an attractive Debentures investment. An alteration should be made in the Act which would give the right to Co-operative Mortgage Banks to sell lands coming into their possession through default in payment of principal and interest. We understand that the Act was passed to prevent the accumulation of land in the hands of land grabbers, who were not agriculturists. The Act does not prevent zemindars who may also be land grabbers and money-lenders from adding to their holdings. A Co-operative Mortgage Bank is designed for the purpose of providing farmers with easy capital at the least possible rate of interest. It is only reasonable that agriculturist combining in a co-operative unit for such purposes should be recognised as such under the Act. If a body of farmers agree to purchase their existing holdings as a company, we assume that the Act would recognise their right to sell their holdings, either in one block or separately, as they might think fit. We can see no difference in principle to farmers combining through a strictly co-operative society to secure cheap money in order to carry on their individual holdings.

It is perhaps outside our terms of reference to make other suggestions with regard to the Act. We understand that it is only the recognised agricultural class who are enabled to purchase land. This prevents the non-agriculturist or his son who may have a keen desire to take up farming as a profession from doing so. We also understand that the son of an agriculturist who may leave the land to follow a profession in a city or elsewhere, can continue to buy land as an investment. We are not concerned with the obvious hardship to the non-possessing class; we are concerned with its implication from the point of view of improving the financial position of the country. The adoption of sound progressive methods makes wealth. Our experience in our respective countries is that it is a distinct advantage to agriculture to have a percolation of the quicker brained more adoptable business mentality coming into the industry. This class is more likely to be responsive to scientific knowledge and they have the means to introduce better machinery and more up-to-date methods. An owner of this class can do no possible harm. On the contrary, great can result. We do not put this point forward as a recommendation, we are aware that it is highly controversial. In other districts the Hindu family law

acts as a serious handicap to safe advances on land. If Mortgage Banks are to become of real use for the purpose of raising cheap money then this law also must be amended. There is a further difficulty. Lenders can not secure reasonable and speedy redress against defaulters owing to legal uncertainties and delays. This is referred to in the Punjab Provincial Report page 120. We have heard of a current saying "If you have a good case compromise out of court, if it is a bad case fight." Many laws have been passed to save the debtors from the money lenders. It is not inconceivable that this may be one of the reasons why money-lenders are forced to charge what would appear to be excessive rates of interest. Where undue protection is given to the unscrupulous borrower, the psychological effect must be harmful. The great majority of borrowers are honest people intending if possible to pay their debts. By the introduction of safeguards this class suffers. A high standard of business integrity can never be fostered by protecting the rogue. We suggest that the time is ripe for an examination by competent authorities of existing laws. We are not satisfied that they are working to the advantage of the country as a whole.

If the Land Alienation Act is amended in such a way as to recognise Co-operative Banks as zemindars, we feel confident that together with the addition of other safeguards which we recommend, sound Mortgage Banks can be established. We regard this as essential. If it is found to be impossible then it is our opinion that no new Mortgage Banks should be opened until further experience has been gained by those already in existence.

This recommendation is not intended to touch any policy which has been hitherto pursued by the Government to prevent expropriation of Agricultural classes and the resale by the Co-operative Land Mortgage Bank may be restricted to by classes if the Provincial Legislatures so decide.

We do not favour the proposal that Government should give further financial support unless the alterations already referred to can be introduced.

The following is our opinion with regard to the main questions which have been summarised in the report of the Central Banking Enquiry Committee :

(1) What should be the economic purposes for which long term land mortgage credit might be beneficially applied to agriculturists? We agree with the decision arrived at by the Registrars Conference of 1926, that no money should be advanced which is not economically profitable to the borrower, and with the principal objects as outlined by them, which are as follows:

(*a*) The redemption of land and houses of agriculturists.

(*b*) The improvement of lands and methods of cultivation and the building of houses of agriculturists.

(*c*) The liquidation of old debts.

(*d*) The purchase of land in special cases only to be prescribed in the by-laws.

(2) The period must depend on the purpose for which the money is to be advanced. They should be granted for stated periods of 5, 10, 15, with a maximum of 20 years. Sound management should enable banks to extend the period even to 30 years, but we do not recommend this until success has been attained. The repaying capacity of the borrower is an important element.

(3) Whence should mortgage banks derive their working capital? There is only one way by which Land Mortgage Corporations can be financed on sound banking principles:—

1. Share capital.
2. Debentures.

(*a*) The share capital should be provided by the provincial Government with a paid up issue of 10 per cent. of the amount which may be required to establish the corporation.

(*b*) The Debentures should be issued in the market without a special guarantee of the Government. We consider it sufficient safeguard that the capital taken up by the Government will be liable for payment of redemption and interest of the debentures together with sound mortgage securities. We are of the opinion that if the necessary alterations are made in the laws of the land, and if sound business management is introduced, the debentures of mortgage banks would speedily be recognised as gilt-edged securities.

(*c*) The proportion of share capital to the debentures issued should be as 1 to 5.

(*d*) In order to safeguard the risk to the corporation arising from drought or other uncontrollable causes impairing the ability of the ryot to meet his obligations we suggest the following:

That debentures should be issued for a period amounting to 25 per cent. longer than the average period for which the loans are granted, in other words, if the loan period is 15 years then the debentures should be issued in terms of 20 years.

(4) Should land banks be permitted to receive deposits like the co-operative central banks or the joint stock banks, and if so, for what purposes and under what safeguards regarding lucid resources, etc.?

If our recommendations are accepted, this point does not arise. District land banks should act as an agency for the sale of debentures to be issued by the provincial mortgage co-operation.

(5) What should be the relation between the Land Mortgage Bank and the ordinary Rural Credit Society where they co-exist?

The relation between Land Mortgage Banks and short-term credit banks should be a very close one. It is indeed essential not only to save over-lapping but also administrative and supervision expenses. We suggest that the District Land Bank should be housed, where possible, in the same building as the Central Bank of the area. Careful consideration should be given to the advisability of combining the management of these banks under one head with of course the necessary assistance. It would be possible to secure a higher standard of management. If the man at the top can be depended on, then efficiency and security can be relied on. The Central Bank and the Land Bank would have the further benefit of having the advantage of knowledge in the possession of the respective banks about the financial position and integrity of their clients. The transfer of money from one bank to another must of course be strictly prohibited.

(6) Should the Government give any financial assistance to these banks, and if so, what form should it take.

This question has already been answered in the main. The proportion of loan to tho security will largely depend on the alterations

which may be made in the existing laws to which we have already referred. In the event of the alterations being made, we suggest that 50 per cent. should allow a safe margin. Advances should be limited in the early years to a sum not exceeding Rs. 5,000/-. We cannot recommend that large blocks of capital should be granted on any single property until experience has been gained. We suggest that the payment of capital and interest should be done on the lines adopted by the English Land Mortgage Corporation. They are combined in one charge which is worked out on a percentage basis.

It is highly advisable that the general financial position of the borrower should be investigated before a mortgage is granted. No good will result in a loan being granted to a cultivator whose net income renders it impossible for him to meet his debt charges with reasonable regularity. We also suggest that steps should be taken to place the giving of loans under the "Land Improvements Loan Act" with mortgage banks. A separate memo is attached which outlines the methods adopted in the Punjab for basing the amount of loan granted. The memo is by one of the acting officers in the Punjab at our request.

Reference has been made to the advisability of establishing one Central Mortgage Corporation to include the whole of India. We cannot recommend this. The conditions existing between the various provinces are diverse, moreover the area to be covered is too great. We recommend that a Mortgage Co-operation should be established in each province and financed on the lines already indicated. The Corporation would advance moneys to District Mortgage Co-operative Banks. In the event of our recommendation with regard to bankers and accountants being adopted, we suggest that they also should be on the Directorate together with another of indisputable ability and authority in the province. The remainder of the Directorate would consist of representatives from the District Mortgage Banks. We would recommend that the bye-laws of the Mortgage Banks already in existence in the Punjab should be used as the basis for the rules and bye-laws of the District Banks.

1. The standard of assessment in the Punjab is a proportion of the "net assets".

The "net assets" of an estate means the average surplus which the estate is anticipated to yield after deduction of the expenses of cultivation. A full fair rent paid by a tenant at will, though often falling short of the net assets is assumed for the purposes of assessment to be a sufficiently near approximation to the net assets of the land on which it is paid.

2. Prior to the recent (1928) Punjab Land Revenue Amendment Act, the theoretical standard of assessment was "half net assets", but this standard was never approached in practice. The Land Revenue Amendment Act (1928) reduced the standard of assessment from one half to one quarter of the net assets, and it also extended the term of future settlements in fully developed tracts to forty years. The previous period of settlement had varied from 20 to 30 years. The half net assets represented a maximum—the assessment of an estate was always fixed according to circumstances. Accordingly the percentage of net assets even under the old assessment rules varied considerably, district by district, the range being from about 20 to 33 per cent. occasionally approaching 40 per cent. The passing of the Amendment Act (1928) involved (in fulfilment of a promise) a reduction in the assessment of several districts which had been assessed after 1921, in order to keep the assessment within the statutory limit of 25 per cent. of the net assets prescribed by the new act.

3. 45 per cent. of the cultivated area of the province is tilled by the proprietors themselves. 8 per cent is in the cultivating possession of occupancy tenants. 47 per cent. is in the hands of tenants at will out of which 33 per cent. pay in kind. 9 per cent. pay cash rents (mainly in the SE of the province). Other rents are land revenue plus a proprietory fee (4 per cent.) etc.

4. With so much land under *batar* or kind rent, the two factors in the produce estimate, *i.e.*, prices and outturns are very important. It has ever been the practice in fixing commutation prices for the purpose of assessment to adopt a very cautious range of prices. The area under wheat in the Punjab is 9½ to 10 million acres. Wheat prices were (pre-war) Rs. 3 or less. Since 1922 Punjab wheat prices have varied from Rs. 3 to Rs. 5/3 per maund, *i.e.*, up to 1929. Settlement officers have rarely taken anything like the average price prevailing in the decade preceding a settlement as their commutation price. I have not figures to hand, but I remember my D. G. K. settlement (1919) when I took Rs. 2/4 per maund for wheat which seemed safe enough. The high prices which prevailed post-war have made assessments very light and have encouraged a fantastic desire to take up land as an investment.

5. In the year 1929 the sale price of land for the province as a whole represented 245 years purchase of the land revenue on the land—in the previous year the figure worked out at 273. Likewise the mortgage value of the land, the ownership of which was mortgaged in 1929 represented 118 times the land revenue assessment, or about the same figure as in the previous year. Agricultural prices only experienced their catastrophe decline at the beginning of 1930 and the sale and mortgage values of the succeeding year (not yet available) will show a heavy drop, but there is plenty of room for it.

6. In view of the acute depression in prices a circular has been recently issued (January 1931) to the effect that no advance will be made to a mortgage bank if the maximum loan allowed under its rules exceeds Rs. 5,000/- or 20 times the land revenue of the land mortgaged whichever is less. The land revenue criterion is eminently safer.

7. I append some figures which may be of interest.

Average recorded sale price per acre of Gujranwala land.

Year ending September 1928.	Year ending September 1929
Rs. 402.	Rs. 372.

Average mortgage money per acre on the whole area mortgaged.

Year ending September 1928.	Year ending September 1929
Rs. 174.	Rs. 172.

Incidence of land revenue in the province per acre.

On total area.	On cultivated area.
Rs. 1-1-11.	Rs. 1-15-7.
Varying per district from—	
Rs. 0-3-2 (Mianwali) to Rs. 5-0-6 (Lyallpur).	Rs. 0-8-0 to Rs. 5-7-4

This is for the year ending September 1929.

Co-operative Banking and Auditing Experts.

The co-operative movement in India is based on what is known as the Raiffeisen system, with certain modifications to meet local requirements of the country. Our tour throughout India, together with the voluminous evidence which has been prepared by the Royal Agricultural Commission and also by the various reports issued by the Provincial Banking Committees, gives the impression that the foundations of the organisation are sound. Unfortunately there are flaws in the buildings which must be repaired. Reference has been made to them in the report on Rural Finance which has already been issued. They will be found from pages 133 to 142. They are of such importance as to demand the most careful attention of the Committee. With regard to short-term credit banks, there are two of vital importance. One is the auditing system, the other is banking.

Co-operative credit societies should always be looked on as banking institutions for taking deposits from members or others and lending this money out to other members on good security. The promoters of co-operation are often enthusiasts who look on co-operation with almost religious fervour. It is seldom that the visionary and the sound business man are to be found in one person. Many mistakes have been made and much money lost by neglecting this fundamental need of efficiency. One of the greatest mistakes which has been made by co-operative credit banks, not only in India but throughout the world, has been the neglect of recognising the necessity of introducing sound banking technique. It has been too readily assumed that this knowledge can be secured by studying the theory of banking. This is as impossible as to expect that the theory of mechanics can alone produce a skilled engineer.

In studying a technical point of this nature, which we suggest is one of great importance, it may be of advantage to consider the experience of other countries. Scottish experience might prove to be of interest and some value. The reason given for the success of Scotch farmers during the nineteenth century and the early part of the twentieth century, is that rural education was developed in Scotland at an earlier period than in any other country in the world. There is another reason—the enterprise of Scottish bankers. The large city banks in Glassgow and Edinburgh were the first in the world to realise the advantages not only to themselves but to trade, of opening up branches throughout the country. This system expanded rapidly until in the course of little over a generation every small market town in Scotland contained one or, in the majority of cases, more branches of these banks. The method adopted by the governors of the banks was a very wise one. They did not send out into the country city bred managers, they made use of local talent. Country lawyers of standing or land agents were employed. Trained clerks were placed at their disposal. Bank Managers had, therefore, an intimate knowledge of the population whose requirements they were out to meet.

Banks encouraged loans on personal security to hard working farmers of integrity. Managers who knew local conditions served two purposes. Depositors felt that their money would be safe. The banks, on the other hand, had the assurance that they were lending money through agents who had an intimate knowledge of the people with whom they were dealing.

We have no figures before us, but the increase of deposits and credits handled by banks in Scotland during the first half of the nineteenth century must have been very great.

Farmers of honest reputation soon found that they had easy means of increasing their production by securing loans at a cheap rate of interest from the banks. They were also encouraged by this means to enter into vast schemes of improvement in draining waterlogged land and rebuilding their homesteads. These improved buildings and drainage schemes resulted in greater efficiency.

The banks never charged a higher rate of interest than 1 per cent above bank rate with a minimum of 5 per cent. nor does it vary. The point arising out of this is of vast importance. Because comparatively simple but sound banking methods were available, Scottish farmers had the advantage of securing cheaper credits than any farmers throughout the world. This credit was not confined to men who could only give security. It was granted with freedom, provided the reputation of the farmer was sound and that the agent was satisfied that the money was being spent on the purchase of stock or for increasing the productivity of his holding.

There is a difference between the Indian ryot and the Scottish farmer. The latter dislikes debt and will, generally speaking, only enter into debt if he thinks his position will be improved by doing so. After the debt has been incurred he will make the utmost possible effort to pay off the debt as quickly as possible. The attitude of the Indian ryot towards debt is different, but against this disadvantage the co-operative credit banks in India have one distinct advantage. They have the unlimited assets of the members as a charge against the debt.

The Scottish farmer is also, from a banking point of view, much more attractive because of the sizes of his holding. Fifty acres is considered a small farm there. It is hardly necessary to add that co-operation is the only possible credit system which can improve the position of rural India.

Scottish banking methods not only provided cheap and ample credits but at the same time encouraged deposits and the current account and cheque method of doing business. The hoarding of savings in the proverbial stocking became a thing of the past. Deposits in the coffers of the banks, which were previously lying idle, expanded credit enormously. In other words money bred money.

The system was also responsible for introducing efficient business methods such as book-keeping and sound marketing into ordinary farming practice. The sale of produce was centralised in large, well-equipped markets, where the maximum of competition was ensured. The cheque paying and receiving method, being easier than cash transaction, also encouraged business and increased production.

If the same precautions were taken in securing efficient banking throughout the whole co-operative movement in India, as there are in Scotland and other western countries, the progress of co-operation in this country would have been greater and the ryot would benefit by receiving his loans at a lower rate of interest. Inefficiency means dear money. To deal leniently with the backslider or defaulter, as it so often does in the co-operative society, merely means that the hard working and thrifty ryot has got to pay for the follies of his neighbour or of the organisation. We suggest that, in order to safeguard the interest of depositors and of the cultivators who have ultimately to bear the burden, trained bankers should be added to the staff of each province. It is possible that one banker of indisputable ability and experience would be sufficient, and that under his guidance a staff sufficient to safeguard the strictly banking side of the movement would very soon be trained. The Punjab has the advantage of a banker of this description whose work has, we were informed, already been of

enormous benefit to this province. Mr. Darling in his annual report for 1931 makes the following statement with reference to this appointment: "His long experience of joint stock banking is not only of great use to the Registrar but his advice is freely sought after by the Central Banks".

When the banking and auditing technique of the co-operative movement in India is as perfect as it is in European banking institutions then it will be found that Co-operative Banking will grow of its own momentum. The result of these reforms in the course of a few years will probably be that money could be lent to the cultivator perhaps at 2 per cent. less than at present. The cost of ensuring efficient management through banking and auditing would prove to be a fraction of this amount.

Co-operation is not philanthropy, it is a business institution. It is not a co-operative system dealing with a percentage of the rural population which must be envisaged; it is an organisation that will ultimately turn that comparatively trifling percentage of the whole into a hundred per cent. unit. This can never be brought about unless the highest possible degree of efficiency can be secured in the internal organisation.

Expert Accountant.

We also advocate that to each Provincial Centre there should be attached a highly trained expert accountant. He would, under the registrar, be responsible for supervising audits and the methods to be adopted, and the training of the auditing staff throughout the Province. A man of marked ability is essential. The Registrar would then, in having under his control real expert assistance in Banking and auditing, be in a position to give more of his time to the general organisation and spread the movement throughout his province. His energies must be devoted to a greater extent than is now the case to extending the sphere of co-operation in the manner which we have outlined elsewhere.

Registrar.

The status of the Registrar should be one of the very highest in the Province. All authorities are agreed that in co-operation lies the one hope of rural India. The responsibility of the Registrar is, therefore, very great and is of such a nature that it should only be placed on the shoulders of men of proved capacity and administrative ability of the very highest order.

Current Accounts and Cheques.

Another of the aims of co-operative banking must be to introduce, in however simple a form, a current account and cheque paying system. It is our opinion that no reform can be of greater advantage, in the banking sense, than this. The development of the Current Account and cheque paying method of transacting business is a very great step in advance. In England the habit is universal amongst large and small cultivators. Joint Stock Banks are now endeavouring to extend the system in such a way as to meet the needs of the smallest of their customers. We have already referred to the advantage which modern banking conferred on Scottish farmers. Current accounts and cheques have simplified business and laid the foundations for simple bookkeeping amongst the agricultural community. It encouraged the

deposit habit. If a cultivator is paid in hard cash or notes then he is much more likely to keep his savings in the proverbial stocking. Another effect of the cheque habit is the assistance it gives in the developing of organised marketing. When a cultivator can only be paid in cash he will think twice about taking his crop to a Central Market where he runs the risk of losing the money received or of having it stolen from him on his return journey. He is, therefore, glad to sell his produce on his farm to a local dealer. The first step on the road to systematic and sound marketing methods is to have the farmers' produce sent to a central depot where it can be handled and graded efficiently. From this point of view alone, it is highly desirable that the current account system in however simple a form and however limited a scale should be one of the aims of the co-operative banking movement. During our tour throughout the country nothing gave us greater pleasure than to find that a start has been made even by a primary society. The Ichra Co-operative Society Limited, a primary society on the outskirts of Lahore which has taken steps to establish this system. Drawing of cheques on current accounts was introduced on the 1st of February. We are satisfied that the Society has reached such a stage of development that there is every likelihood of real success being attained. We suggest that the attention of the leaders of the Co-operative Movement should be drawn to the possibilities of introducing this system in a very guarded way. In those societies that have reached a sufficiently advanced stage of development the addition of expert bankers to the co-operative staff will be of enormous value in bringing this about.

We would remind the Committee of the words of Jules Simon—"The greatest banker in the world is he who disposes of the proletarian's might". The introduction of the current account system would be a great advance towards this end.

In order to encourage the use of cheques we would urge the desirability of Government accepting payment of land revenue in this way. It would be a direct incentive of no mean value.

Co-operation and the Reserve Bank.

Consideration must be given to the financial requirements of the co-operative system in so far as they cannot be met out of deposits. At the present state of development several Provincial Co-operative Banks have more money at their disposal than can be used for granting sound credits. Large amounts are invested in Government Securities. These are the first resources to be tapped when the demand for credits is such that a larger working capital is required. By working capital we mean the amount needed for meeting the normal demand apart from emergency exigencies during the busy season. Government securities should be sold, so far as necessary, to meet the normal demand. The remaining securities can be used as collateral for credits either from Commercial Banks or (in the event of its being established) the Reserve Bank in order to meet the temporary emergency requirements.

We must also give consideration to the way in which further financial requirements, which may and probably will arise in future, should be satisfied. At the outset it must be made clear that apart from temporary exigencies, the Reserve Bank cannot grant much help under ordinary conditions. It is necessary that this bank should keep its position fully liquid. The Co-operative Banks do not at present finance marketing or trade transactions. The strength of the Reserve

Bank would be endangered to a serious extent if it were forced to tie up part of its resources in credits in order to supply those banks with what we have described as working capital.

We suggest that the Government should consider the advisability of placing a part of the monies derived from postal savings at their disposal. This in our opinion should be done under the direction and control of the Reserve Bank. It could satisfy itself better than the Government about the soundness of the demand and the desirability of their compliance. The Bank in short would act as Agents for the Government.

Finally, we feel compelled to stress the necessity for the co-operative banking movement restricting, as far as possible, the disbursement of its profits and to build up strong reserves out of these profits. These reserves—we refer to those of the Central and Provincial Banks—should not be used for granting credits, but should be invested in gilt-edged securities. They will ultimately enable the movement to effect a gradual reduction in the rate of interest charged on its credits. Reserves will also enable it to obtain credits in times of emergency.

Rural Reconstruction Societies.

While we were at Lucknow we visited three villages in which co-operative societies had been established. The first two were typical examples of the failure of credit societies; one society was in the process of liquidation and the other was not, we were inclined to believe, solvent. We investigated in each case the reason for this. We are of the opinion that more than one reason is responsible; illiteracy, their inability to realise the simple principles of co-operation, their fear of incurring joint responsibility for debts incurred by their societies. The main reason probably arose from a bad example of landlordism. In each case the landlord was non-resident, his rents were collected by an agent. The landlord dared not visit the village in person, the rents were collected on his behalf by an agent, but even the agent could not visit the village unless accompanied by others. The landlord did not only secure his legal rents but also compelled the villagers, by various means, to contribute further monies to his exchequer in the event of a new car being bought by him. Tenants were by one means or another forced to pay extra monies. The average increased beyond fixed rental was about 50 per cent. In the event of rents or the additional monies charged not being forthcoming, the villagers were beaten and in some cases a form of torture was used such as being forced to stand on two bricks wide apart in hot sunshine for considerable periods.

In the other cases the landlords were residents, about nine in number. Before our arrival the villagers were informed that no complaints must be made to us but we came to the conclusion that here also the zemindar system was working unsatisfactorily and was very largely responsible for the position of the credit society. About 5 per cent. above fixed rental was forced out of the ryots and labour services had also to be given during the planting and harvesting season. The zemindars were amongst the biggest creditors of the society, and the liquidators was having great difficulty in securing repayment of debts incurred. We came to the conclusion that in each of the two cases referred to the beneficial results of a prosperous credit society, granting loans on less rates of interest than money-lenders, would disappear into the hands of the zemindar.

If these two cases are typical of the position in villages owned by zemindars in the United Provinces, then it is a waste of public monies

and efforts to endeavour to introduce a sound co-operative credit system until legislative steps are taken to safeguard the interest of the ryot against rapacious landlords.

The third and last village was an example of successful co-operative effort. Here also credit societies had been established some years ago. It was not functioning successfully. Two and a half years ago a rural reconstruction society generally known as a rural uplift society, was started. The objects are—

(1) To improve the physical, social and moral conditions of the members, and their efficiency generally.

(2) To introduce improvements in agriculture and in cattle husbandry.

(3) To introduce improvements in cottage industries to improve communications and ensure improved marketing of village produce.

(4) To assist in arrangements for the education of members and their children and for their training in the art of expression through games, songs, dramas design and worship and of other useful occupations which render life of the community more pleasing and liberal.

(5) To spread correct knowledge about hygiene and human nutrition and about infectious diseases. Also to undertake welfare work for expectant mothers and children.

(6) To provide means for equitable settlement of disputes and thereby discourage unnecessary and frivolous legislation.

(7) To promote other measures designed to encourage in the members a spirit and practice of thrift, mutual help and self help.

The name of the village is Dhanwara. It is within 17 miles of Lucknow. We considered it to be one of the most successful co-operative efforts which we have ever seen. We were assured by the registrar of the Province—Mr.....who accompanied us, that previous to the establishment of the uplift society it was a typical village in his province. We have no reason to doubt this.

The village consists of 250 inhabitants. The land is of average quality. It belongs to a lady zemindar who is non-resident. It is managed by a retired government official who is very strongly of the opinion that great progress has been made by the village since the society was established. There are two societies, one the credit society and the other the one referred to. The former has 20 ryots and the latter 60. Every ryot is a member and every member pays one rupee per year contribution. The management consists of 9 representatives, together with the local revenue officer, known as a tahsildar, the co-operation inspector and the health officer, who are *ex-officio* members. The society was started by the inspector.

We inspected the village and part of the crops. A communal garden was shown us in which flowers were being grown. It was well kept. We saw the children and their teacher at work, their bright and happy appearance together with their keen intelligent faces impressed us. A simple village library, containing about one hundred books, has been started and it is much appreciated by the inhabitants. In the same building is a little dispensary containing Indian and European drugs. Previous to the starting of the society the number of literates on an average in the district was about 4 or 5 per cent. now 30 per cent. can read and write. Not only are the young children

taught, but there is also an adult class. Admonitions on neat enamel plates are placed on the walls and trees. The fire brigade gave us a display of fire drill. The general cleanliness of the streets and the houses was very marked. The wells have been improved. We were informed that a great improvement had been effected in the general cleanliness and hygienic habits of the people. Manure is no longer allowed to be left in or near the houses; it is now stored in proper pits on the outskirts of the village or in the fields. Drainage pits have also been made. We saw improved varieties of wheat growing, which the ryots informed us produced 25 per cent. more than the old standard kinds.

The villagers are also planting improved sugarcane. Modern Meston ploughs have not only been introduced but are being extensively used. Irrigation wells have been improved and their use is now very largely on the co-operative principles. Games and sports, including gymnastics are becoming popular. A display was given us. Dramas are got up and are greatly enjoyed. On festival days the whole village now combines and the feasts and entertainments are much less costly than before the dancing girls for instance are no longer engaged and the crushing debts formerly incurred for marriages and other ceremonies are now unknown. Even a voluntary police system, to safeguard the village against theft has also been established. All disputes are now settled by the society. Since it has been started not a single case has been taken to the courts. Habits of thrift and economy have taken firm root. Every male member must be sent to school. Fines are inflicted if this is not done. Young girls are also encouraged to attend. Owing to the strict caste system girls over eight years of age cannot attend, but we are told that, in the event of the village being given the services of a lady teacher, parents would allow the older girls to make use of her services.

We asked the villagers, who were assembled to meet us, what their choice would be if forced to choose between their uplift society and their credit society. Their vote was unanimous in favour of the former, and was given in such a manner as to leave no doubt in our minds. This is very important as the credit society is now in a sound position financially. Another interesting development of, I consider, far reaching consequences is that all the rents are now paid through the society to the agent of the zemindar.

We were satisfied not only from the facts which were placed before us, but even more from the general tone of the village, that however utonian our description would appear to be it is not overdrawn.

We were assured by all the parties that the village was a strictly representative one before the society was started. It has, it must be admitted, a distinct advantage having a lady zemindar who was not rapacious.

The first impression to draw from this example, is whether there is not co-operative work to be done of even greater importance than the establishment of credit societies, and indeed before credit societies can, generally speaking, function properly. Before credit can be advanced with any safety the integrity of the land individually and collectively must be of a respectably high standard. If done collectively through a co-operative society, then they have to be trained not only in the simple principles of co-operation, but in understanding the implications of collective responsibility. Without this it would be impossible to look forward to a self-supporting co-operative movement. It is highly necessary that whatever is done this should be the goal to aim at.

The second lesson which we can learn on the successful result of co-operation in this village, is that unless steps are taken to educate the villagers in the need of reducing their expenditure on marriages and festivals, the public monies expended on saving the ryot in paying exorbitant rates of interest are very largely lost to him in other ways. Perhaps the most important factor of all is the possibility of the ryot, by co-operative effort, to save himself from bad landlords. If the co-operative spirit, as seen in actual operation in this village, can be introduced throughout the country, then co-operation can be much more effective in putting an end to the malpractices of the zemindar than any form of legislation. Not only will it be much more difficult for the zemindar to screw monies out of his tenants, but if the village can combine to safeguard themselves and collectively refuse to submit to unfair treatment, the zemindar is powerless to do any harm.

A very careful enquiry should, therefore, be made into the possibility of introducing, if not before credit societies are established, then at the same time, Rural Reconstruction Societies.

The Money Lender.

The money lender has, in the past, filled a useful purpose. Without his moneys agriculture and trade could not have been carried on. When co-operative credit banks were established to provide capital to the agriculturist at less cost, it was taken for granted that the money lender was an enemy who must be destroyed. It might have been better to have made an endeavour to use his wealth and experience inside the co-operative movement. The money lender must realise that nothing is permanent and that his unorganised methods can no longer meet the requirements of the modern world. The co-operative organisation should not, on the other hand, refuse to consider the possibility of making use of his capital and experience. It may be that, if this combination of forces can be brought into being, we shall have an organisation capable of overcoming all difficulties. We shall then have the organised strength of the cultivator on the one hand and on the other the collective wealth, business experience and money sense of the bania. It is probable that his capital will provide all the necessary funds required to finance the movement. We suggest that it is only by this means that the whole of rural India can become one great Co-operative Banking unit within reasonable time. There are dangers, just as there are in harnessing any great forces, but they are not insuperable.

It has been too readily accepted that in making such attempt money lenders will prove to be the more powerful force of the two, that he will kill the weaker. Is this fear justified? Against the unorganised cultivator he is all powerful, but that he and his class can injure a people, who can use their combined strength through such a mighty force as co-operation has proved itself to be, is by no means likely.

We suggest that the leaders of co-operation should consider the possibility of welcoming the co-operation of the money lender, not only in the country, but in the towns, on the following terms:—

(1) That he should become a member of his local society.

(2) That after joining his society no further loans shall be granted by him.

(3) That no moneys advanced by co-operative banks to debtors shall be accepted by him to recoup himself for loans outstanding, excepting under the following circumstances—

(*a*) When local directors give their unanimous consent.

(*b*) When certified by the district inspector.

(*c*) That any money advanced by the society to repay a money lender debt shall be covered by the money lenders investing in the society at least double the amount repaid to him.

(*d*) That the amount of the repaid debt shall be considered as a long term investment which cannot be recalled for a period of 5 (?) years.

(4) He shall be allowed to fill any position to which he may be elected by the vote of the members. His experience as a director or on the management staff of central or provincial bank, might prove to be invaluable and would overcome the anomalous position which exists at present that all directors represent debtors.

(5) That he shall give his wholehearted support to his society and that his experience and influence shall be unreservedly at the service of his fellow members.

(6) Any recognised money lender investing to the extent of Rs. 1,000 or over in a primary society shall be given the same rate of interest as the society pays on advance from its central bank.

It has been suggested that the money lender has nothing to gain by joining the movement. This is not correct. To an ever increasing extent the hand of his fellows is against him. He lends without security. Through co-operation with the organised and unlimited security of the members his loans are incomparably safer. A 7 per cent. investment is safer for him than 15 per cent. unsecured. His position will be improved. His support will be welcomed and he will no longer be looked on with suspicion by his fellow men.

The trend of every country in the world is towards the consolidation of interests. It is not possible for the money lender to stand indefinitely against this current.

The counter suggestion that Co-operative Credit Banks will be endangered by making use of the money lender is unworthy of a great movement. Caution is necessary. Action dictated by fear must always be bad action. Provided the safeguards already suggested are applied, then co-operators must have sufficient faith in its abilities to control its own future.

The money lender is no mean force for the co-operative movement to fight. Why waste endless time and effort in trying to kill him? Such a waste of effort is only permissible when it has been proved that a combination of forces for the common good is impossible. We suggest that this has not yet been proved because no concerted attempt has been made. The essence of good leadership is to secure victory at the least cost in capital and effort.

ENCLOSURE XIV.

MARKETING.

There is one great problem before India—to increase the prosperity of the ryot. If this can be done then not only will the economic but also the social position of the country be revolutionised to the advantage of all. There are only two ways—Co-operation (in its broadest aspect) and Marketing.

In the economics of production a factor known as the law of diminishing returns comes into operation. In many highly developed countries a point has been reached when it has become impossible to increase production except at the sacrifice of profits. Before that stage is arrived at increased production actually reduces costs and thereby increases profits. This has been the line followed by most countries. In others, notably Canada, the grain belts of America and Australia, costs of production have been reduced by mass production by power machinery with the minimum amount of labour employed. To such an extent has this method developed that in certain districts of America 600 acres of wheat land can be cultivated and harvested per man employed. Progress in such a way is for many obvious reasons impossible in India. She must advance on the lines of increased production. She has hardly started to do so. There is room for vast development before the profits of her cultivators are adversely affected by the law already referred to.

The governing factor in the development of agriculture and trade is demand. India has spent 115 crores of rupees in bringing into cultivation 23 million acres of irrigated lands. On this land she has established two millions of small cultivators. No effort has been made to ensure them a market for their output. Their produce has aggravated a disease which had already been in existence—the congestion of the internal market.

Ryots who have settled on the virgin irrigated soils of the Punjab have improved their position. It is to some extent at the expense of their fellow ryots who have remained on their old crop weary holdings, on land exhausted by countless generations of cultivators. Even the tillers of irrigated lands have not reaped the full advantage of their efforts because of the congestion to which reference has been made. In a country like India it is the export market which makes the price, not the home. If because of inferior quality, uncertainty of supplies or lack of uniformity, Indian export produce makes less than that of other countries, then the price on the Home market is correspondingly less. If steps are not taken to organised export in such a way to meet the modern requirements of world trade, then the greater the quantity of produce grown in the country, the greater will be the internal congestion. This will result in increasing the poverty of the ryot, and then the less will not only he and his family eat of his own produce, but also the millions of village workers who supply his requirements. The trouble does not end here, industry which is dependent on the prosperity of the Rural Population—80 per cent. of the whole—will find its market seriously restricted. India is a country of thirty-six million homesteads, small in area and therefore, under the existing methods of cultivation, with a small output. No other country, with the exception of China is less organised. More than any other country does

she require organised marketing for the following reasons:—The diversity of quality and class of produce. Almost every crop in the world is grown by her cultivators in relatively speaking, minute quantities. The amount of surplus available from each cultivator is trifling—collectively it is enormous. The difficulties of successful marketing are added to by the ryot growing mixed crops such as wheat and barley. In a country of such vast extent, long and heavy expenditure on rail transport charges has to be borne by a considerable proportion of the crop. Bulk transport is the only possible way to reduce this expenditure.

Facilities for collecting and export have, it is stated by competent authorities, actually declined in recent years. The great export firms have, for instance, withdrawn their agencies from many important markets, particularly in the Punjab. This is remarkable in a province where such intense development has taken place and where we would have been justified in expecting greater activities on the part of the large export merchants. Mr. Owen Roberts, a well known expert on the marketing of wheat in the Punjab, who has spent considerable amount of time in investigating the position, has made the statement that marketing in that province is simply chaotic. We are satisfied from the investigations which we have made that this is not an overstatement. It has been stated that there is one million tons of wheat lying in the Punjab at present, while Calcutta is buying Australian wheat. It has been landed even at Karachi—a gilbertian state of affairs. A proposal has been made that the import of wheat should be prohibited. This is a lazy man's remedy, especially in a country which normally exports wheat. The only sound remedy is to fight with modern weapons—Organised Marketing.

Even the selling of tea would appear to be most unsatisfactory. The President of the Tea Buyers' Association in a speech made the other day referred to the gloomy outlook in that trade—"He blamed the antedeluvian methods of selling tea".

As the organised competition of the rest of the world is increasing, Indian produce is being displaced. Standardisation and organisation are now the watchwords in every great country. There is a determined striving after efficiency. This is to be found with Canadian, Australian and Argentine wheat. Even Russian wheat is now being sold through one organisation. New Zealand and Danish butter has captured the world market because of organisation in marketing. This also applies to Danish bacon. Argentine meat rules the world market because of organisation. South African, Californian, and Canadian fruit growers are entirely dependent for their export trade on the efficient methods adopted by these respective countries in placing the fruit on the world's market. To such an extent have nations interested themselves in organised marketing that in Ireland, Denmark and Holland eggs are now refused an export license unless they secure the Government hall-mark of quality.

During the last decade grading in western countries has become almost universal for all products. Canada was the first country to standardise grades. For many years her wheat has been sold on the exchanges of Winnipeg, Chicago, London, Rotterdam and Hamburg to the extent of millions of pounds a day on the declared grade quality which is rarely challenged. A bushel of wheat has on the exchanges a world market and can be transferred as easily from hand to hand as sterling money. Good quality Indian wheat is as good as Canadian. It is hardly necessary to ask what its position is in the world's

market. This arises not only from the mixture of various qualities of wheat but also from varying amounts of sand. We are informed that 5 per cent and even more is a common average. No country can afford to pay freight charges on exporting grit. In dealing with large quantities of agricultural produce, this in itself amounts to a severe handicap. And even greater is the difficulty of ensuring steady and continuous supplies. Wheat, for instance, is of little interest to large flour millers unless they can be ensured of stated quantities when required. Milling is now a highly specialised and technical trade. The miller sells his flour as the Canadian producer sells his wheat—on standard quality. It is only in this way that the miller can retain his market. The baker also must know exactly what grade of flour he is buying. To enable the miller to give this guarantet, the proportions of various grades of grain used by him must be definite. Adulteration of grain and other produce which is so frequently done by the trader and the ryot in their endeavours to increase their meagre profits, merely adds to the ultimate difficulty of securing the best price. The ryot and the collecting merchant try to deceive each other. The collecting merchant and the shop-keeper do the same. The shop-keeper in his endeavour to secure a profit, adulterates the food which he sells to the consumer. In the aggregate the profits of the innumerable number of traders must be very great. Individual profits are small as they always are where there is a teeming population as in India. The fight for a bare livelihood will always bring forward sufficient competition to secure to the ryot a price that will leave the country trader with a very small margin. It is not the excess profits of the traders that the royt has to complain of and suffers from, it is the hopeless inefficiency of the whole system.

During the course of the discussion at the meetings of the Central Banking Enquiry Committee, the decline of the Indigenous Banker has been referred to. Competition from the Imperial Bank, the big Exchange Banks and the Joint Stock Banks has been stated as the reason.

The decline of the Bill Market has also received attention. The reason given has been—1, Stamp Duties. 2. Cash Credits. The Bill Market can only operate successfully if there is a free sale of goods. When goods become sticky and difficult to clear, bills become dangerous. Careful consideration should be given to this phase of the problem. In our opinion, the decline of the Indigenous Banker and of the internal financial organisation of the country is partly due to antequated methods of marketing. The Indian merchant operating on an internal market congested with goods which do not meet a ready export sale is a bad bank client. The banker, the merchant and the ryot all suffer. As the position of the latter (80 per cent. of the population) becomes more difficult it reacts on the trade of the country. It is only by the ryot manufacturing goods for which he finds a speedy and profitable sale that the real wealth of the country can be increased. The troubles of the Indigenous Banker and the ryot arise, to some extent. from the same cause—marketing in which there has been no change for countless years.

Internal congestion not only disorganises the money market, it results in what must collectively be an enormous loss in the actual waste of produce. The holding up of goods in small parcels, even under the best conditions of storage, results in serious loss. It takes place in the wheat stack of the ryot, in his store and in the pit or store of the small trader who collects the produce. Every hold up along the line of distribution means waste of time, waste of credit.

increased transport and storage costs. Even in England where wheat is stored on farms unthreshed in large ricks, the wastage between the months of September and May has been estimated at 5 per cent.; it must be much greater under conditions such as exist in India. I suggest that, if the loss from this cause alone could be estimated, it would shock the Nation.

Until India can improve her position on the world's market, she must remain a poor country and banking can never make rtal progress. Banking follows trade, it does not lead trade. Banking develops as the country does. It cannot be made without trade. Trade cannot be made without goods. Goods are worthless unless they secure a market. During a boom period antiquated methods of production and sale may suffice—goods of whatever quality will find a market at some price. In times of depression it is a hopeless task for the merchant to sell inferior ungraded goods on the world's market at anything like a reasonable price.

Dr. Trip in his memorandum on the Money-Market has pointed out how a well developed system of warehouses could assist the credit position of the country. They would not only expand credit. They would be of enormous assistance in the reorganisation of marketing These warehouses would form the nucleus for the centralisation of produce. If they are to be made use of then there must be some authority to organise the trade. The experience which the Punjab Government has had in erecting a wheat elevator is a sufficient proof that to do so without the co-operation of the various interests will merely result in the building of stores throughout the country which will never be made use of. Not the least important of the many duties of the Marketing Board which we propose should be established would be to pull the various interests together for this purpose.

The establishment of co-operative marketing will in such a country as India be slow. It will, however, be one of the duties of the Marketing Board, in consultation with the co-operative authorities, to assist and support the promotion of co-operative marketing. It is more necessary in a country of small holders than it is where farms are large. The smaller a consignment for sale, the more hands does it have to pass through before it meets the export trader or the large wholesale merchant and the greater is the loss to the ryot. He must be persuaded to centralise his produce. There is only one way in which this can be done—to prove to him that when he does so he is going to meet a better market for his goods. If co-operative marketing can be established another great advantage will result. It will enable the produce of the country to be used as security for the provision of cheap credits.

In one of the Provincial Committee's Reports it is suggested that a Marketing Officer should be appointed under the Registrar. This suggestion is only trifling with a part of the economic structure which is of supreme and vital importance. The only attempt which is being made at the present moment by Co-operative Societies in the marketing line is to establish Commission Shops in the local market. These shops act as agents for their members. They sell in the local market, under exactly the same conditions as other traders. The management is not more efficient. It is indeed perhaps inferior. It is claimed that by this means a cultivator may save half a rupee per maund in commission. This may be of some benefit, but it only touches the very fringe of this great problem. The congestion of the internal market is left exactly as it was. During our tour throughout India we saw two co-operative marketing agencies. One of these was in Madras, it is called

the "Triplecane Co-operative Society". This is a small trading society buying from farmers or in the wholesale market and selling to consumers. The Management informed us that they find great difficulty in making progress owing to the impossibility of securing adequate commission on the sales. The Managing Director of the Society stated that profits were exceedingly low, the average in the retail trade being 6 per cent. If these figures are correct, then the costs of local distribution under existing organisation are low. It is difficult for any retail co-operative society to make progress under such conditions. The other organisation which we saw in operation was a Commission Shop in the Punjab near Lyallpur. The Management in the latter case was inefficient. Book-keeping was elementary and there was difficulty in explaining the book debts. For the size of the business they were excessive. Co-operative Marketing is not worth doing if existing methods cannot be improved on. If it is to be of any real assistance to producers in India. then the whole problem must be tackled on entirely different lines. The co-operative movement throughout India has no clear line of advance. It is uncertain as to its future procedure with regard to marketing because it has no clear understanding of the goal to be aimed at; There is only one—clearing the line of surplus goods.

At Rothamstead Experimental Farm in England there is one plot of land which has been devoted to continuous wheat production for about half a century. No manures of any kind are applied. The yearly output has become static at about 12 bushels or 750 lbs. per acre. The impression is that production at this rate can go on indefinitely. The land is by no means naturally rich. If Indian production was raised even to this level the increased revenue would, in terms of wheat, be £112,131,000 per year or 168 crores of rupees. If increased production in more valuable commodities were considered, then the increased wealth would be much greater. By improving the cultivation and qualities of cotton and sugarcane, then the increase per acre would be distinctly greater. The possibilities of increasing the production of sugar are almost illimitable. At the present moment spasmodic efforts are being made to establish mills in various parts of the country but no co-ordinated and organised effort is being made. There is another form of production for which the soil and climate of India are particularly suited—fruit—there does not appear to be a single fruit which India cannot produce with great perfection. Many large tracts of the foot hills of the Himalayas are, we are informed, ideally adapted for the cultivation of the more temperate fruits. The warmer regions are equally well suited for tropical fruits including mangoes. California by organised marketing has brought vast wealth to her state. In 1877 one car load of citrus fruit was shipped from that state, now approximately 60,000 car loads are being shipped annually. Other classes of fruit have made similar progress. The value of the citrus fruit exported now amounts to 80 million dollars per year. The value of the timber required or packing boxes is 6 million dollars—an industry in itself. This would have been utterly impossible but for organised marketing. Experts inform us that the soils and climate of many parts of the irrigated tracts of India are comparable to California for fruit production. More revenue per acre can be derived from fruit than from any other class of food stuffs. It is only by concentrated effort through bulk marketing and standardisation of the product that Canada and South Africa have also succeeded in capturing their share of the world's market. In this one line of produce alone a very large increase could be made in the agricultural wealth

in India. Even in England where considerable attention has been given to fruit culture in recent years, in certain districts specially adapted for fruit, the value of the land has increased from £20 per acre to £100 per acre: the gross receipts have also increased from £8 or £10 per acre to £100 per acre. In some cases this figure has been considerably exceeded.

All these possibilities are open to India, but it is only by concentrated effort that these vast avenues of wealth will be made available. Money as is well known to the Banking Committee breeds money. There is no single reform that is more likely to revolutionise the economic situation in India than by increasing the products to be derived from the soil and thereby increasing the wealth of 300,000,000 people. It is one of the greatest economic problems in the world. There must be no shirking responsibility however great the task.

It may be said that the organisation of fruit cultivation in India is purely agricultural. To produce fruit or any other commodity before the market is assured will merely result in the fruit rotting on the trees as, I am informed, it has done in the northern Punjab for the last 2 or 3 years. Fruit growing countries have been compelled not only to effect organised marketing but also to establish canning factories to make use of surplus crops. California is supplying the world. Why should India not have her share?

The question of organised marketing is of greater National importance than that of Rural Credits. To supply credit requirements of the ryot is important, but as we have pointed out in a previous memorandum it is not so much so as it is to cure the diseases from which the indebtedness arise. One of those is the low average production of the cultivation. Production can never be stimulated until the ryot can secure a free and sure flow for his surplus produce to the world's market. It is only by the development of the external trade of India that she will ever take her place in the world of trade and commerce, which her vast wealth in land, population and climate would justify. Her agricultural possibilities, under a proper organisation, are amongst the richest in the world. Her resources at the present moment are only being scratched.

Indian handicraft for which the country is pre-eminently famed would derive great benefit from a Marketing Board. If advantage were taken of the world demand for the innumerable articles which her workers produce, the output could be greatly increased. There should be an Agent and Show Rooms in every great capital in the World. It would be the duty of a Marketing Board to organise the various handicrafts in such a way as would enable the trades ultimately to bear the necessary expenditure. A small levy on the goods sold could be arranged for. German cottage Industries are organised into guilds for this purpose and through them their manufactured goods are marketed with great efficiency and with great benefit to the members. Indian workers are amongst the most skilful in the world. The possibilities of improving their position by this means alone are illimitable but it is necessary that some authority should be responsible for organising the crafts.

I shall not attempt with the exception of jute to make detailed suggestions as to what procedure should be adopted for the various commodities which India produces. This can only be done after a most careful and detailed investigation and in consultation and close cooperation with all the interests involved. There is only one way by which it can be accomplished—by the establishment of a Central

Marketing Board under a reconstructed Ministry of Agriculture. We suggest that this ministry is the proper authority because it is agricultural and Rural production for which organisation is most required. In order to co-ordinate the interests of the Provinces, the Board should consist of one representative from each. The chairman should be executive officer appointed by the Central Government. It is essential that he should understand modern trade and marketing requirements. Sub-Committees representing the various interests would be appointed by the marketing department and would act in an advisory capacity. The marketing of every class of product would have to be carefully investigated. The Board would require an adequate staff, with possibly, a branch in each province, at the head of which would be an assistant working with local committees. It shall be one of the main duties of the Board to make a survey of the conditions which govern the sales of the various products, from the ryot to the final market. Present costs of distribution will have to be known and the possibilities of not only improving existing methods but of discovering new markets must be gone carefully into. Each class of product will have to be taken separately. The problems affecting grain are, for instance, entirely different from cotton. Even the various classes of grain may have to be considered separately. To secure a speedy sale for wheat from the producing areas to the consumers will require special consideration as compared to barley and maize. A start has already been made in the Bombay Presidency and to a lesser degree in the Punjab with cotton. It should be the aim of the Central Marketing Board to secure in every Province the standardisation of cotton on such a basis as would enable it to be sold to manufacturers on its grade mark as Canadian wheat is. The ultimate goal should be the development of co-operative marketing in such a way as to enable cotton growers through sales associations to conduct this business on their own behalf. Growers of tea in India, Ceylon, Sumatra and Java have within the last year arranged for a limitation of their output in the hope that this will enable them to secure better prices. We suggest that the attempt is foredoomed to failure unless growers are also prepared to organise the marketing of their product. Oilseeds, tobacco, fruit, tea, sugar, wool and hide, all these and many others will only yield to treatment after close investigations and determined effort is made by a Marketing Board.

These are only a few of the many tasks which it will be the duty of the Board to undertake. I am dealing with the marketing of jute in another paper.

Proposed Jute Control Co-operation.

In recent years attempts have been made to control the price of rubber, coffee and wheat by different methods. All have failed for reasons which are well known.

Jute is the only crop of any magnitude which under existing condition, lends itself to such a form of control as would ensure a stabilised price to the grower. Many Indian economists have pointed out that it is a monopoly and that therefore it should be possible to secure to the producer a paying price. If it is a monopoly to India, then this ought to be possible. There is reason to believe that it is. Attempts have already been made in Java to establish the crop there, and also in America and West Africa, but they have failed. It would be difficult to imagine a more suitable country than Java—the climate and soil in parts not dissimilar and cheap labour. In any case it is not

grown in any other part of the world, though it has in the past been a paying crop of great value. There is, therefore justification for believing that so far as the producer is concerned it is a monopoly crop, as long as the price is not raised unduly.

There is also some ground for suggesting that the manufactured article has to a considerable degree a monopoly. There are only two products in competition with it—hemp and paper. The former costs several times more and is too expensive to enter into competition with the ordinary jute product. Paper, up to the present, is only in competition with jute for cement bags, and the demand for jute would only be endangered if monopoly powers were used to raise the price unjustifiably beyond an economic figure. But it is no less possible that a well equipped research association could discover other purposes, as yet unknown, for which jute could be used.

It is possible with jute to regulate production. Further all exports can be cleared through two ports—Calcutta and Chittagong.

To enable control to be effective, it would be necessary to take the following steps—

(1) A jute Corporation shall be established, with powers to fix prices for the raw material, to eliminate unnecessary costs of distribution, to control output and, if necessary, to undertake distribution and effect all payments. The capital of the Corporation shall be held by the Provincial Governments in jute growing areas in proportion to the average areas grown. The management shall be vested in a directorate representing the various interests involved. The constitution of the Directorate shall be as follows:—

(1) Overseas manufacturers—Two representatives for Europe. One representative for America.

(2) Indian Jute Mills Association—Two representatives.

(3) Calcutta Baled Jute Association—One Representative.

(4) Calcutta Jute Shippers Association—One Representative.

(5) Calcutta Jute Dealers Association—Two Representatives.

(6) Bengal Jute Association—One representative.

(7) Directors of agriculture to represent the cultivator. Five representatives.

(8) Representative of Banking interests—One. Full executive powers shall be vested in the Directorate.

Note.—The interests of the producer will be fully safeguarded by the Government holding the entire capital of the Corporation and having the power to dissolve the Corporation in the event of monopoly powers being used adversely.

This is merely the outline of a scheme for stablisation of prict and control of production. If the producer and the business interest are ready and willing to contribute the Share Capital, then the Government share may be diminished as the other interests increase the Share Capital.

If the constitution of the Board is not suited to local conditions it may be examined and modified suitably.

Prices shall be fixed in advance in consultation with the various interests involved. Manufacturers and export balers (on behalf of their clients) shall be bound to purchase all their requirements through the Corporation at the stated price.

The Corporation shall be responsible for all surplus jute and shall withhold same from the market unless for purpose which shall not be in competition with the manufactured Jute fabric.

Producers shall be formed into local associations, which shall be co-operative societies and subject to the rules and regulations of such. They shall be responsible for the collection and transport of supplies to local depots. The collecting associations shall also be responsible for distributing all payments to their members.

At each local depot the representative appointed by the local association shall take over the jute by weight from the members. It shall then he handed over by him to the *bepari*. Each lot to be moved and kept separate. The *bepari* shall be responsible for delivery to the Central Depot as taken over by him. Each individual parcel shall be reweighed and priced under the existing system. The final price to the grower shall then be determined and credited to his account.

Payment of 75 per cent of the price fixed by the Corporation shall be made to the association on delivery and weighment of the jute to the local depot. The balance shall be paid when taken over by the central depot purchasers after assortment.

Each association shall keep an exact record of output of all members and of the acreage of their holding. They shall employ a competent manager. The records of the associations shall be regularly inspected by officials of the Corporation. The Corporation shall have powers to settle all disputes. The association shall limit or increase the output of each member *pro rata* according to the requirements of the Corporation.

Each consignment received by the association from its members shall be weighed and marked at the point of collection.

It would be advisable to use the existing channels of trade, as the agents of the Corporation on a commission basis. Agreements to be entered into for stated periods.

After the raw material is in store it is a matter of ordinary business routine to supply, by whatever channels are decided on, the requirements of manufacturers throughout the world. Existing storage capacity shall be made use of. It may be found necessary to erect extra accommodation for the handling of surplus jute. Manufacturers will have nothing to gain by refusing to take their years supply, to the limit of their storage capacity, whenever the material can be despatched to them.

Manufacturers shall notify the Corporation of their requirements at the beginning of each season, and shall be bound to take the amount specified. The difficulty of financing the season's requirements by the Corporation would largely disappear. Jute at fixed prices would then be recognised as a safe security. The banks as at present could hold a lien on the goods. The banker and the manufacturer should therefore welcome the proposal of fixing prices, as it relieves them both of great uncertainty. Manufacturers, having been relieved of existing speculative risks in purchasing their raw material, would be in a position to devote all their energies to improving their technical and sales organisations and to reducing their costs of production. It is well known that the speculative risks of purchasing requirements of raw

material are a distinct handicap to manufacturers. The retail price of the manufactured article would not be influenced to any appreciable extent by the difference of say four rupees per maund on the raw material.

It is not inconceivable that under proper organisation material reductions could not be made in the cost of distribution.

The yield of jute in Bengal in 1928-29 was 43,000,000 maunds and its value at 9 rupees was £29,000,000. In 1930 the average price was about Rs. 4/4 landed Calcutta. It has been calculated that the cost of distribution is Rs. 2/8/- per maund apart from speculation and profits. One rupee per maund means £3,250,000. It is unnecessary at this stage to enter into further details with regard to the distributing organisation which should be set up. It is merely a matter of sound business organisation and efficient accounting. The magnitude of the control need not prejudice the proposal.

The greatest difficulty will be found in the control of the crop output, but it is by no means insuperable. The allocation can be based on the previous output of the ryot. Restriction is no hardship where land can be used for growing other crops. Where other crops cannot be grown on, it is calculated at 45 per cent. of the land, the ryot can leave a small proportion of his land fallow. A certain income from jute is of much greater value to him. Legislation would be necessary. Powers would be required even to the extent of refusing to allow any but recognised growers to cultivate the crop.

Surplus in any given year of 50 per cent. need be no serious handicap. A considerable carry over is indeed necessary and is doubtless the ordinary practice of the trade. Gladstone once said that "Faint heartedness was the master vice of the politician." If it can be proved that the economic difficulties are not insuperable, then the benefits of such a scheme to the Indian ryot, and perhaps to the world, are such that however great the administrative difficulties it should be put in operation.

The existing methods of distribution are:—

1. The Cultivator.
2. The *Faria* and *Bepari.*
3. Merchants (Marwaris and European.)
4. Mills, balers and shippers.

There are only three grades—

1. Standard (1st quality).
2. Lightening (2nd quality).
3. Hearts (3rd quality).

The variation in price is approximately as follows—

When 1st—Rs. 30 per bale.

When 2nd—Rs. 27—Rs. 27/8 per bale.

When 3rd—Rs. 23—Rs. 24 per bale.

The greatest difficulty in establishing a successful jute control will probably arise from the taking over of existing stocks apart from the growing crop of the ryot. The whole position must be very carefully investigated and a decision arrived at as to whether it would be sufficient to leave them for disposal through the ordinary channels of

trade. If control is confined to the crop in the hands of the cultivator then there will be considerable speculation in the stocks held by the merchants and traders. If the present level of prices is taken at four rupees per maund, merchants would hold up the stocks against the price that is fixed for control. They would receive a gratuitous profit of—say Rs. 4/- per maund if the price was fixed at Rs. 8. This would result in many millions of pounds being made by the merchants without any risk to themselves. Moreover, the merchant in holding up the stocks for a rise would disorganise the demand through control.

It may, therefore, be necessary to take over existing stocks. It has been suggested that in order to overcome the difficulty of the manufacturer having made forward sales contracts—that he should be allowed a six months supply of jute. In the event of any manufacturer having any more jute in stock, the samples should be taken over by the Corporation. In the event of any manufacturer having less than a six months' supply in hand, he would be given the balance at the price jute is taken over by the Corporation from the merchants. Manufacturers who refuse to hand over any quantity beyond a six months' supply would be informed that if they refuse to do so control prices would be raised against them to the extent to one to two rupees per maund. A fair profit would be allowed to the merchants on the stocks in their hands, and all stocks would have to be declared.

It has been suggested that the *farias* and the *beparis* would withhold stocks of jute in their hands to hand over to the Corporation in the following year's crop at enhanced prices. It may be that a comparatively small percentage of jute could be manipulated in this way, but all traders will be licensed and the Corporation will have power to cancel the license of any merchant or trader who does not comply with the requirements of the Corporation. *Farias* and *beparies* must also declare their stocks. In the event of any *bepari* endeavouring to manipulate his supplies, his license would be withdrawn. The right to withdraw a license gives the corporation great powers. It would mean that in future the *bepari* would be out of business. The stocks in the hands of the *bepari* which could not be traced would amount to a very small percentage of the whole. As the Corporation will make a considerable profit on jute taken over, the financial stability of the Corporation would not be effected by a comparatively small proportion of illicit stocks having to be taken over in the following year's crops. We are informed on good authority that old jute can be spotted with comparative ease, if so, *farias* and *beparies* will run great risks. They will probably find that it is not worth their while.

Payments to the cultivator will be made in the following way—Associations as we have already suggested will be established to which will be attached groups of villages. One cultivator from each village shall be appointed to the Committee of Management. A Secretary Manager shall be elected by them and shall be their paid servant. He shall be responsible for keeping all books and transacting all correspondence between the corporation and the society; he shall be responsible for organising the collection of jute on given days. He shall also be responsible for supervising the area of jute grown according to the requirements of the corporation. Each member of the Committee shall in his own village assist in arranging the allocation in the village.

When a crop is ready for delivery, the Corporation will fix three collecting days during the season for each association, the jute will be taken by the cultivators to the appointed depot. It shall be weighed

in the presence of the Manager and at least one of his Committee and the *bepari* or *faria*, whose business it will be to convey the jute to a central depot. Each consignment as weighed will be labelled with the name of the grower. The weight shall be invoiced in the books in the ordinary way. A servant of the Corporation or preferably of the bank will attend each collection with cash in hand. As each lot of jute is weighed and taken delivery of, the grower shall receive a cash payment of 75 per cent. of the fixed price.

The *bepari* shall be responsible for delivering the jute as taken over by him to the central store. A responsible official of the Corporation shall then re-weigh each consignment and price it for quality according to trade custom. The remaining percentage due to the cultivator shall be paid to him on the next day of collection. At the end of the season any balance due to the cultivator for his last consignment shall be sent to the Committee of Management of his association for distribution amongst the members.

It has been suggested that this method is not possible in practice because of the magnitude of the task involved. We shall examine it in detail.

In the 1921 census the number of population supported by jute agriculture is given at 4·2 millions. For the purpose of calculation let us assume that $\frac{1}{4}$ of that number are cultivators; this gives us one million. Let us make a further assumption that there is an average of 20 cultivators in each village (the average number we are informed on good authority is considerably more) and that the average number of villages which could be formed into a jute collecting depot would be 20, we have therefore to deal with 50,000 villages and 2,500 selling associations. Allowing for 3 collections and 3 bank assistants at each collection to do the necessary book-keeping and effect payment, a staff of five or six hundred would be ample. I am informed on the best of authority that the banks could provide this staff with ease and that insurance of the money in transit could be effected at a rate of 3/32 per cent, a trifling charge.

Apart from all other considerations, any schemes that would enable the cultivator to handle the actual money which his produce realises, is deserving of the most serious consideration by all who are interested in his welfare. Credit Co-operative Societies might eventually take over the work of payment, but this would take some years; the actual collecting associations would be run as co-operative societies though formed compulsorily, but in the initial stages it would be advisable to pay over the monies direct to the cultivator as suggested.

APPENDIX II.

Names of all Banking and Loan companies registered under the Indian Companies' Act, now working in the various provinces in India, together with figures of Capital, Deposit and Dividend (*vide* paragraph 32 of Report).

Serial No.	Name of Company.	Authorised capital.	Subscribed capital.	Paid up capital.	Reserve fund.	Deposits.	Rate of dividend paid during the last year for which information is available.
	1	2	3	4	5	6	7
	MADRAS.	Rs.	Rs.	Rs.	Rs.	Rs.	
1	Abhya Bharati Bank of India, Ltd.	1,00,000	16,695	16,695	*Nil*	459	*Nil*
2	Adi Dravida Kashta Nivarthi Co., Ltd.	50,000	7,770	6,445	*Nil*	*Nil*	*Nil*
3	Agricultural and Mercantile Bank of India, Ltd.	1,00,000	17,240	6,390	..	..	..
4	Ambur Baratha Bank, Ltd.	20,000	3,420	3,420	..	2,957	..
5	Anamalai Union Bank, Ltd.	1,00,000	68,675	68,675	6,820	14,793	12%
6	Andhra Bank, Ltd.	10,00,000	1,31,000	1,16,000	10,175	5,47,485	12%
7	A. V. Bank, Ltd.	1,20,000	30,000	30,000	..	..	..
8	Arunachalam Bank, Ltd.	1,00,000	37,750	20,100	..	117	..
9	Bank of Chettinad, Ltd.	3,00,00,000	2,00,00,000	1,00,00,000	(*a*)	(*a*)	(*a*)
10	Bank of Hindustan, Ltd.	25,00,000	20,00,000	9,72,020	..	18,44,524	..
11	Bapatla Mutual Benefit Co., Ltd.	1,00,000	49,550	17,923	1,140	4,764	..
12	Bharata Bank, Ltd.	50,000	31,840	24,782	1,000	30,559	9%

(*a*) Bank is a private company and hence no information.

Serial No.	Name of Company.	Authorised capital.	Subscribed capital.	Paid up capital.	Reserve fund.	Deposits.	Rate of dividend paid during the last year for which information is available.
	1	2	3	4	5	6	7
	MADRAS—*contd.*	Rs.	Rs.	Rs.	Rs.	Rs.	
13	Bharata Lakshmi Bank, Ltd.	1,00,000	16,400	16,400	..	37,493	..
14	Bhagiodayam, Ltd.	1,00,000	8,530	8,530	1,721	867	..
15	Calicut Bank, Ltd.	5,00,000	2,37,680	2,37,680	1,24,668	24,70,975	10%
16	Canara Industrial and Banking Syndicate, Ltd.	1,00,000	71,000	14,200	1,266	66,200	7%
17	Cannanore Bank, Ltd.	2,00,000	1,57,650	1,40,118	8,000	5,26,362	12%
18	Catholic Bank, Ltd.	10,00,000	69,000	34,250	5,850	6,78,358	7½%
19	Chalapuram Bank, Ltd.	40,000	40,000	36,860	10,423	20,55,825	..
20	Chennimalai Sri Dhandapani Bank, Ltd.	1,00,000	53,800	53,800	2,737	31,444	12%
21	Chirakkal Rabi Varma Elaiyaraja Bank, Ltd.	1,00,000	52,350	35,937	2,500	87,227	9%
22	Chowghat Christian Bank, Ltd.	20,000	12,250	7,350	512	14,568	13½%
23	City Forward Bank, Ltd.	5,00,000	93,650	45,686	1,500	1,08,489	6%
24	Coimbatore Bank, Ltd.	1,00,000	60,100	29,950	..	..	..
25	Coimbatore Anuparpalaiyam Bank, Ltd.	1,00,000	90,000	90,000	17,748	79,885	12%
26	Coimbatore Aryan Bank, Ltd.	1,00,000	50,000	50,000	24,000	2,56,256	15%
27	Coimbatore Dhanabhivridhi Nidhi, Ltd.	1,00,000	36,550	36,550	..	2,946	10%
28	Coimbatore Draviya Sahaya Nidhi, Ltd.	2,00,000	1,12,000	1,12,000	36,842	,16,051	11%
29	Coimbatore Gajalakshmi Bank, Ltd.	2,00,000	76,300	75,550	19,022	1,55,115	12%
30	Coimbator Gopala Nidhi, Ltd..	1,00,000	7,000	7,000	..	..	..

31	Coimbatore Gowri Vilas Nidhi, Ltd.	1,00,000	51,000	51,000	11,962	54,155	13½%
32	Coimbatore Hindu Kripakar Nidhi, Ltd.	5,49,924	2,94,139	2,94,139	1,26,437	3,60,786	18%
33	Coimbatore Janopakara Nidhi, Ltd.	2,50,000	1,32,500	1,32,500	99,603	5,53,171	16%
34	Coimbatore Kamalalaya Bank, Ltd.	1,00,000	36,500	36,500	2,001	12,692	7½%
35	Coimbatore Karpaka Nidhi, Ltd.	1,00,000	81,900	81,900	5,000	67,907	..
36	Coimbatore Karuna Nidhi, Ltd.	1,00,000	62,000	62,000	27,690	1,10,426	13½%
37	Coimbatore Kshema Vilasa Nidhi, Ltd.	1,00,000	14,750	14,750	..	818	..
38	Coimbatore Maha Jana Bank, Ltd.	2,00,000	87,975	87,975	31,400	1,90,812	13½%
39	Coimbatore Maruthi Bank, Ltd.	1,00,000	30,000	30,000	2,017	56,844	12%
40	Coimbatore Nataraja Bank, Ltd.	1,00,000	37,250	37,250	6,088	1,40,030	..
41	Coimbatore Sabhapathi Bank, Ltd.	1,00,000	7,925	7,925	..	1,000	..
42	Coimbatore Sri Chowdambigai Nidhi, Ltd.	2,00,000	80,000	80,000	11,642	26,135	..
43	Coimbatore Sri Jayalakshmi Bank, Ltd.	1,00,000	60,000	60,000	18,042	1,55,453	13½%
44	Coimbatore Sri Kanyakaparameswari Varthaka Sangam, Ltd.	1,00,000	20,850	20,850	3,620	35,971	12%
45	Coimbatore Sri Shanmughavilasa Nidhi, Ltd.	1,00,000	15,050	15,050	301	6,951	12%
46	Coonoor Sri Santhana Venugopalaswami Nidhi, Ltd.	1,00,000	68,450	68,450	8,182	11,703	15%
47	Coonoor Subrahmanya Vilasa Upakara Nidhi, Ltd.	2,00,000	1,50,000	1,50,000	19,344	76,638	15%
48	Cosmopolitan Bank, Ltd.	1,00,000	10,150	2,030	..	..	..
49	Dharmapuri Sri Anjaneya Nidhi, Ltd.	20,000	2,850	2,615	33	29,758	..
50	Dindigul Sri Kannikaparameswari Bank, Ltd.	3,00,000	62,000	49,150	..	12,105	..
51	Edathuruthi Bank, Ltd.	50,000	38,275	9,520	75	16,047	9%
52	Enamavu Catholic Syrian Bank, Ltd.	1,00,000	39,850	26,245	4,000	45,112	16½%
53	Engandiyur Vyapara Co., Ltd.	20,000	5,000	5,000	207	1,747	25%
54	Great Indian Agricultural Bank, Ltd.	5,00,000	8,010	1,204	..	..	..
55	Guru Sankar Bank, Ltd.	20,000	6,000	6,000	..	6,193	..
56	Indian Bank, Ltd.	60,00,000	47,92,800	12,79,280	7,25,000	1,58,27,077	..
57	Indian Federal Bank, Ltd.	3,00,000	9,475	9,475	..	..	..
58	Iringal Bank, Ltd.	50,000	6,240	4,327	..	..	..
59	Jayalakshmi Bank, Ltd.	1,00,000	1,00,000	75,985	..	5,41,254	9%
60	Janopakara Nidhi, Ltd.	20,000	6,650	6,650	188	12,640	2%
61	Kadathanad Bank, Ltd.	1,00,000	4,185	2,700	..	9,431	..

Serial No.	Name of Company.	Authorised capital.	Subscribed capital.	Paid up capital.	Reserve fund.	Deposits.	Rate of dividend paid during the last year for which information is available.
	1	2	3	4	5	6	7
	MADRAS—*contd.*	Rs.	Rs.	Rs.	Rs.	Rs.	
62	Kalpatta Bank, Ltd.	1,00,000	55,850	27,925	..	34,569	9%
63	Kalappatti Kongu Vellalar Sangham, Ltd.	1,00,000	25,850	25,850	..	3,000	..
64	Kollegal Srimud Devanga Vamsabhivardhani Nidhi, Ltd.	50,000	30,380	30,380	5,644	2,775	..
65	Kanara Bank, Ltd.	3,00,000	3,00,000	3,00,000	2,85,000	46,66,715	12% 4 %bonus.
66	Kanara Banking Corporation, Ltd.	3,50,000	2,25,000	2,22,920	1,12,116	19,16,326	9% 2 %bonus.
67	Kanara Enterprise, Ltd.	2,00,000	28,570	25,935	7,000	1,59,432	5% 2% bonus.
68	Karnataka Bank, Ltd.	5, 00,000	73,245	73,110	14,500	5,44,150	7% 1% bonus.
69	Karur Mercantile Bank, Ltd.	1,00,000	49,970	49,970	..	33,272	..
70	Kavalappa Bank, Ltd.	1,00,000	45,000	13,750	1,000	71,914	..
71	Kerala Bank, Ltd.	1,00,000	72,500	63,500	1,476	3,295	..
72	Kolumam Kudigal Nidhi, Ltd.	1,00,000	3,000	3,000	..	..	..
73	Kotagiri Bank, Ltd.	1,00,000	31,600	31,600	456	2,775	12%
74	Kotamangalam Nambudiri Bank, Ltd.	50,000	15,000	15,100	525	66,792	..
75	Kottapadi Bank, Ltd.	20,000	10,000	10,000	..	..	..
76	Kottayam Bank, Ltd.	1,00,000	26,100	20,007	7,050	27,313	8%
77	Kumbakonam Bank, Ltd.	2,50,000	2,45,150	1,60,065	1,07,084	11,18,756	18%
78	Kuniyamuthur Sri Natarajar Bank, Ltd.	50,000	34,000	34,000	1,405	8,794	10%

79	Kuniyamuthur Sri Ramachandra Kripakara Nidhi, Ltd.	1,00,000	43,760	43,760	2,645	3,586	9%
80	Lakshmi Vilas Bank, Ltd.	1,00,000	99,500	99,500	5,000	2,56,824	12%
81	Liberal Bank of India, Ltd.	50,00,000	1,48,300	19,905	..	..	..
82	Madras Christian Benefit Fund, Ltd.	2,52,000	2,09,328	1,26,323	3,209	1,965	..
83	Madras Estates and Banking Corporation, Ltd.	20,00,000	20,100	..	..	..	..
84	Madras Purasawakam Hindu Janopakara Saswatha Nidhi or Permanent General Benefit Fund, Ltd.	9,00,000	3,127	3,127	5,276	4,33,763	12%
85	Maharashtra Nidhi, Ltd.	1,00,000	10,710	5,169	47	6,121	..
86	Manapuram Bank, Ltd.	1,00,000	11,380	2,276	..	..	..
87	Mathilakam Bank, Ltd.	1,00,000	..	..	..	..	..
88	Mayavaram Permanent Fund, Ltd.	7,99,800	2,29,887	78,628	3,421	67,957	..
89	Maranneri Bank, Ltd.	1,00,000	1,050	..	..	..	..
90	Mettupalaiyam Lakshmi Vilasa Nidhi, Ltd.	1,00,000	52,825	52,825	25,160	1,22,572	15%
91	Mettupalaiyam Town Bank, Ltd.	1,00,000	33,300	33,300	15,578	669	..
92	Merchants Bank, Ltd.	2,00,000	1,58,600	1,58,600	20,600	1,59,602	7½%
93	Modern Bank, Ltd.	2,00,000	42,400	42,400	7,500	1,04,270	12%
94	Moolki Bank, Ltd.	2,00,000	15,100	7,870	..	..	..
95	Motherland Industrial Bank, Ltd.	1,00,000	1,250	1,250	..	..	..
96	Mullasseri Malankara Catholic Syrian Bank, Ltd.	20,000	5,700	5,700	..	9,657	..
97	Nadar Bank, Ltd.	20,00,000	5,19,180	2,52,463	3,625	4,25,937	7½%
98	Nambudiri Bank, Ltd.	5,00,000	2,71,300	2,71,220	..	..	..
99	Nayar Bank, Ltd.	2,00,000	94,500	83,550	1,200	34,407	10%
100	Nedungadi Bank, Ltd.	50,00,000	25,00,000	14,91,425	4,50,000	53,23,995	9% on old shares, 8% on new shares.
101	Negapatam Permanent Fund, Ltd.	5,99,940	5,20,155	2,49,811	36,080	8,642	..
102	New Indian Bank, Ltd.	1,00,000	75,000	75,000	31,277	3,00,852	12%
103	New Star Bank, Ltd.	1,00,000	6,490	5,562	96	11,588	..
104	Nurani Indian Bank, Ltd.	1,00,000	1,00,000	50,000	..	91,708	..
105	Oriental Benefit and Deposit Society, Ltd.	50,000	50,000	50,000	18,440	1,36,909	13%
106	Palghat Town Bank, Ltd.	50,000	38,275	9,250	75	16,047	9%
107	Pangal Nayak Bank, Ltd.	2,00,000	1,75,000	1,75,000	82,000	7,79,305	6½% 2½% bonus.

Serial No.	Name of Company.	Authorised capital.	Subscribed capital.	Paid up capital.	Reserve fund.	Deposits.	Rate of dividend paid during the last year for which information is available.
	1	2	3	4	5	6	7
	MADRAS—*contd.*	Rs.	Rs.	Rs.	Rs.	Rs.	
108	Papanaickenpalaiyam Pudur Krishnanda Nidhi, Ltd.	1,00,000	46,000	46,000	5,534	40,369	13½%
109	Pattanam Sri Gopalakrishna Sahaya Nidhi, Ltd.	1,00,000	13,500	13,500	..	..	..
110	Popular Bank, Ltd.	50,000	45,000	11,950	..	11,454	12%
111	Podanur Bank, Ltd.	1,45,000	69,945	39,686	6,000	50,915	7½%
112	Peelamedu Radhakrishna Bank, Ltd.	2,25,000	86,425	86,425	12,591	40,200	12%
113	Periyanagamam Sri Lakshmi Vilasa Dravya Sahaya Nidhi, Ltd.	1 00,000	50,000	50,000	3,003	43,654	..
114	Pollachi Union Bank, Ltd.	2,00,000	1,00,000	1,00,000	6,700	53,447	12%
115	Purasawakam Permanent Fund, Ltd.	2,25,000	2,599	2,599	2,150	1,35,701	12%
116	Rajahmundry National Bank, Ltd.	1,00,000	5,000	5,000	..	..	..
117	Salem Bank, Ltd.	20,000	20,000	10,000	6,650	3,74,306	18%
118	Salem Thanopakara Nidhi, Ltd.	80,000	80,000	80,000	8,760	..	10%
119	Salem Mercantile Bank, Ltd.	[80,000	80,000	60,125	3,752	1,782	10%
120	Salem Sevvapet Dhanalakshmi Bank, Ltd.	1,00,000	24,075	24,075	..	4,500	..
121	Salem Sevvapet Mahajana Sagaya Nidhi, Ltd.	1,25,000	25,175	25,175	1,681	756	12%
122	Salem Town Bank, Ltd.	99,600	73,680	73,680	366	1,035	4¼%
123	Salem Sourashtra Bank, Ltd.	1,00,000	89,475	89,475	3,000	2,122	12%
124	Salem Sri Ramaswami Bank, Ltd.	1,00,000	99,000	24,750	..	2,557	..
125	Salem Sri Kannaikaparameswari Bank, Ltd.	1,00,000	92,500	22,875	..	2,331	..
126	Saraswati Vilasam Shanmugananda Nidhi, Ltd.	20,000	2,500	2,500	..	1,940	..

127	Seeranaickenpalaiyam Dhanalakshmi Bank, Ltd.	1,00,000	35,000	35,000	5,704	₹8,711	..
128	Shiyali Janopakara Nidhi, Ltd.	7,99,920	4,07,430	2,07,434	35,067	27,008	..
129	South India Merchants Bank, Ltd.	2,50,000	2,40,000	1,01,900	..	54,625	..
130	Srinivasar Bank, Ltd.	1,00,000	9,000	9,000	..	..	..
131	Sri Kannapiran Bank, Ltd.	1,00,000	40,000	40,000	6,000	92,065	12%
132	Sri Rajagopal Bank, Ltd.	4,00,000	1,17,350	95,625	4,140	20,266	7½%
133	Sri Venkateswarar Sahaya Nidhi, Ltd.	20,000	3,280	3,280	..	..	..
134	Sri Venkateswarar Fund Bank, Ltd.	20,000	200	..	..	..	..
135	Sri Sankararamanuja Siddhanta Paripalana Nidhi, Ltd.	3,00,000	42,850	21,300	1,500	1,15,640	7½%
136	Swarnavalli Bank, Ltd.	1,00,000	40,050	38,890	8,180	26,740	..
137	Tallikulam Bank, Ltd.	50,000	25,000	1,500	..	..	..
138	Taliperamba Bank, Ltd.	1,00,000	27,370	18,610	2,018	43,833	9%
139	Tellicherry Bank, Ltd.	2,00,000	1,22,513	82,464	15,000	1,80,442	10%
140	Then India Viniga Vysia Bank, Ltd.	1,00,000	11,410	11,410	225	421	10%
141	Toyakkavu Bank, Ltd.	30,000	26,880	21,673	3,206	10,479	21%
142	Tiruvannore Bank, Ltd.	1,00,000	54,600	44,475	..	..	..
143	Tiruvateeswarar Hindu Janopakara Nidhi, Ltd.	20,000	20,000	20,000	10,668	1,70,693	35%
144	Town Banking Corporation, Ltd.	50,000	..	..	..	..	..
145	Triplicane Fund, Ltd.	2,00,000	99,750	49,875	1,000	4,12,512	..
146	Udipi Bank, Ltd.	2,00,000	55,190	54,210	2,500	19,904	7%
147	Union Bank, Ltd.	2,00,000	2,00,000	1,00,000	1,00,000	11,08,921	16%
148	Union Bank and Trades, Ltd.	1,00,000	200	..	..	..	4 % bonus.
149	Union Bank Malabar, Ltd.	1,00,000	44,375	25,115	8,000	1,26,654	..
150	Universal Bank of India, Ltd.	20,000	2,300	2,300	..	..	9%
151	Uppilipalaiyam Vivasaikal Bank, Ltd.	1,00,000	52,900	52,900	4,025	9,824	..
152	Velandipalaiyam Sri Krishna Dhana Sahaya Nidhi, Ltd.,	30,000	13,250	13,250	391	8,325	10½%
153	Uttara Kerala Bank, Ltd.	50,000	17,000	15,486	1,500	42,709	..
154	Vellore Dhana Lakshmi Bank, Ltd.	20,000	20,000	20,000	1,019	29,461	10%
155	Vellore Madavara Nidhi, Ltd.	10,00,000	2,550	2,550	1,950	30,069	20%
156	Vellore Mercantile Fund, Ltd.	6,50,000	21,875	18,000	1,826	7,411	12%
157	V. G. Industrial and Banking Co., Ltd.	50,000	50,000	32,178	22,242	2,41,179	..
158	Valappad Bank, Ltd.	50,000	50,000	50,000	33,500	1,23,331	12%
159	Venkatapuram Kannan Karunakara Nidhi, Ltd.	1,00,000	64,750	64,750	2,914	11,023	12%
160	Vasudeva Vilasam Bank, Ltd.	1,00,000	40,000	2,000	..	..	..
161	Variar Bank, Ltd.	1,00,000	64,100	47,955	10,500	3,28,319	9%

Serial No.	Name of Company.	Authorised capital.	Subscribed capital.	Paid up capital.	Reserve fund.	Deposits.	Rate of dividend paid during the last year for which information is available.
	1	2	3	4	5	6	7
	MADRAS—*concld.*	Rs.	Rs.	Rs.	Rs.	Rs.	
162	Vettakaranpudur Mahajana Bank, Ltd.	1,00,000	20,100	20,100	..	..	..
163	Viswakarma Bank, Ltd.	20,000	6,325	4,053	725	4,944	..
164	Walajahad Jananukula Saswatha Nidhi, Ltd.	20,000	2,850	1,435	..	..	..
165	West Coast Bank, Ltd.	1,00,000	26,790	16,260	..	12,050	..
166	Wynaad Bank, Ltd.	50,000	12,265	12,265	74	..	..
167	Zenith Bank, Ltd.	20,000	550	550	..	..	..
	BOMBAY.						
	(*i*) PUBLIC COMPANIES.						
1	Dharwar Bank, Limited	2,00,000	74,075	74,075	39,396	10,63,142	—
2	Bank of India, Limited	2,00,00,000	2,00,00,000	1,00,00,000	90,00,000	12,90,19,659	—
3	Union Bank of Bijapur and Sholapur, Limited	1,00,000	1,00,000	60,000	22,000	6,34,572	..
4	Central Bank of India, Limited	3,50,00,000	3,36,26,400	1,68,13,200	93,00,000	12,64,72,490	..
5	Jain Bank, Limited	5,00,000	12,500	5,000	*Nil*	2,93,678	—
6	Industrial Bank of Western India, Limited	90,00,000	40,00,000	20,00,000	1,55,000	22,34,526	..
7	Union Bank of India, Limited	50,00,000	39,90,000	39,90,000	7,70,000	27,10,354	..
8	Bank of Nanumal Naraindas and Company, Limited	5,00,000	1,50,000	1,49,220	22,449	411	..
9	Karnatak Industrial Bank, Limited	3,00,000	18,970	18,870	2,900	1,26,958	—

10	Bagalkot Commercial Bank, Limited.	2,00,000	24,190	17,608	1,000	9,458	..
11	Vatandar Bank and Commercial Agency, Limited . . .	3,00,000	41,895	14,155	*	*	
12	Madhav Bank, Limited . . .	1,00,000	6,175	4,145	*Nil*	9,301	..
13	Bank of Barsi, Limited . . .	3,00,000	32,525	5,585	*Nil*	20,267	..
14	Jayalaxmi Bank, Limited . .	1,00,000	10,000	2,000	*Nil*	50,346	..
15	Maneckchowk Vyaparottejak Company, Limited	1,15,150	4,525	4,190	10	1,000	..
16	Industrial and Mortgage Loans, Limited	5,00,000	41,850	17,985	*Nil*	3,657	..
17	Metropolitan Mutual Banking and Assurance Company, Limited .	5,00,000	..	..	..	..	..
18	Belgaum Bank, Limited . .	2,50,000	..	..	..	..	..
	(*ii*) PRIVATE COMPANIES.						
19	G. N. Kulkarni and Company, Limited*	20,000	10,000	2,500	..	..	..
20	E. D. Sassoon and Company, Limited*	1,00,00,000	1,00 00,000	1,00,00,000	..	..	..
21	Waiker and Company, Limited* .	1,00,000	50,000	50,000	..	..	..
22	Ankaliji Bank, Limited* . .	1,00,000	15,000	15,000	..	..	..
23	Ashoka Bank, Limited* . .	1,00,000	23,000	11,500	..	..	..
24	Kerring Rupchand and Company, Limited*	1,00,000	1,00,000	1,00,000	..	..	..
25	Nagindas and Sons, Limited* .	50,000	22,500	22,500	..	..	..
26	Venkatesh Bank, Limited* . .	1,00,000	5,000	3,990	..	..	..
27	Mahalaxmi Bank. Limited* . .	25,000	5,300	4,800	..	..	..
28	New Bombay Banking Corporation, Limited	50,000	..	..	..	..	..
29	Dussaj and Vermas, Limited . .	1,00,000	..	..	..	..	..
30	Hindustan Banking Corporation, Limited	20,000	..	..	..	..	..
	BENGAL. (*i*) BANKING.						
1	Faridpur Loan Office, Ltd. . .	20,000	19,820	19,820	10,506	28,82,470	..
2	Pabna Bank, Ltd.	20,000	20,000	20,000	21,835	4,10,442	..

* Defunct.

Serial No.	Name of Company.	Authorised capital.	Subscribed capital.	Paid up capital.	Reserve fund.	Deposits.	Rate of dividend paid during the last year for which information is available.
	1	2	3	4	5	6	7
		Rs.	Rs.	Rs.	Rs.	Rs.	
	BENGAL—*contd.*						
	(*i*) BANKING—*contd.*						
3	Ghatail Sammilani Dhan Bhander, Ltd.	60,000	26,000	26,000	193	8,871	..
4	Dighpait Milita Dhana Bhander Co., Ltd.	1,00,000	32,000	32,000	28,000	53,093	..
5	Jalpaiguri Banking and Trading Corporation, Ltd.	1,00,000	50,000	50,000	5,67,572	64,23,895	..
6	Investment and Finance Co., Ltd.	5,00,000	2,45,000	2,45,000	1,70,000	..	..
7	Kurigram Bank, Ltd.	20,000	20,000	20,000	10,000	1,26,511	..
8	Bhowanipur Banking Corporation, Ltd.	2,00,000	1,25,000	1,25,000	2,20,000	28,27,727	..
9	Kumarkhali Banking Corporation Ltd.	20,000	18,110	18,110	18,592	3,29,669	..
10	Pabna Dhana Bhandar Co., Ltd.	2,00,000	40,000	40,000	33,347	3,27,957	..
11	Mahishya Banking and Trading Co., Ltd.	1,00,000	22,890	15,501	1,039	283	..
12	North Bengal Bank, Ltd.	50,000	20,000	20,000	32,455	11,64,914	..
13	Co-operative Hindusthan Bank, Ltd.	2,00,00,000	2,30,800	1,68,444	85,000	14,98,103	..
14	Oriental Bank, Ltd.	1,00,000	45,580	42,639	4,050	41,370	
15	Jessore Banking and Trading, Ltd.	1,00,000	71,810	71,565	62,846	6,66,846	..
16	Jessore United Bank, Ltd.	2,00,000	1,00,000	1,00,000	1,66,202	8,71,260	..
17	Kumarkhali Co-operative Credit Association, Ltd.	20,000	18,500	12,800	20,000	1,63,756	..
18	Rajshahi Banking and Trading Corporation, Ltd.	50,000	50,000	50,000	41,917	9,77,576	

19	Pabna Union Bank, Ltd.	1,00,000	30,000	30,000	2,395	2,10,782	..
20	Rajbari Bank, Ltd.	30,000	20,000	20,000	8,222	3,27,378	..
21	Rangpur Bank, Ltd.	2,50,000	85,200	21,285	10,000	1,94,332	..
22	Ulipur Bank, Ltd.	50,000	31,000	31,000	20,844	1,20,312	..
23	Madaripur Bank, Ltd.	20,000	10,000	10,000	21,252	160,727	
24	Moha Luxmi Bank, Ltd.	5,00,000	5,00,000	2,42,400	1,15,000	7,59,933	..
25	Gopalganj Banking and Trading Co., Ltd.	20,000	10,000	10,000	19,987	1,56,906	..
26	Alipur Duar Banking Corporation, Ltd.	50,000	31,225	31,225	9,000	10,541	..
27	Jotedars Banking and Trading Corpotion, Ltd.	1,50,000	1,09,250	66,595	44,500	3,64,359	.
28	Baharpur Bank, Ltd.	20,000	20,000	18,110	4,533	1,408	..
29	Bengal Duars Bank, Ltd.	2,00,000	93,000	73,929	21,379	46,188	..
30	Malda Banking Co., Ltd.	1,00,000	50,000	50,000	22,201	4,56,521	..
31	Faridpur Bank, Ltd.	1,20,000	79,225	47,535	15,898	9,77,958	..
32	Gaibandha Bank, Ltd.	50,000	29,950	29,950	26,500	6,80,033	..
33	Nakalia Banking and Trading Co., Ltd.	50,000	39,750	19,640	1,921	1,01,708	..
34	Bagerhat Union Bank, Ltd.	25,000	22,875	22,875	42,099	1,56,060	..
35	Bengal Commercial Bank, Ltd.	25,00,000	52,220	42,910	1,131	44,066	..
36	Brahmanbaria Coronation Bank, Ltd.	50,000	10,410	10,335	2,493	8,519	..
37	Brahmanbaria Bazar Bank, Ltd.	1,00,000	26,875	17,355	2,563	9,861	..
38	Khoksa Janipur Jubilee Bank, Ltd.	50,000	29,850	29,565	4,670	24,150	..
39	Balurghat Town Bank, Ltd.	50,000	24,500	14,700	19,000	3,26,825	..
40	Universal Bank, Ltd.	10,00,000	4,725	2,864	..	13,895	..
41	Naldanga Bank, Ltd.	50,000	35,600	17,800	8,290	1,02,513	..
42	Nilphamari Commercial Bank, Ltd.	1,00,000	10,000	10,000	6,765	1,10,576	..
43	Rajshahi Lakshmi Bank, Ltd.	20,000	20,000	11,000	5,164	1,32,013	..
44	Rajshahi People's Bank, Ltd.	20,000	20,000	10,000	17,039	2,90,536	..
45	Brahmanbaria Lakshmi Bank, Ltd.	20,000	16,000	12,000	15,715	2,51,725	..
46	Zemindar's Bank, Ltd.	5,00,000	87,400	40,250	..	35,306	..
47	Comilla Banking Corporation, Ltd.	50,000	31,000	15,150	60,990	6,66,787	..
48	South Tipperah Banking and Trading Co., Ltd.	50,000	18,520	15,429	..	..	..
49	Midnapur Bank, Ltd.	1,00,000	..	..	..	..	..
50	Baherband Jotedars Bank, Ltd.	50,000	19,875	19,875	..	37,421	..
51	Barodia Uthali Bank, Ltd.	50,000	30,990	19,212	1,040	52,404	..
52	Natore City Bank, Ltd.	50,000	25,000	15,000	18,462	5,75,367	..
53	Naogaon Union Bank, Ltd.	50,000	37,500	15,000	35,189	4,14,432	..
54	Madaripur General Bank, Ltd.	20,000	10,000	10,000	7,012	1,25,660	..

Serial No.	Name of Company.	Authorised capital.	Subscribed capital.	Paid up capital.	Reserve fund.	Deposits.	Rate of dividend paid during the last year for which information is available.
	1	2	3	4	5	6	7
	BENGAL—*contd.*	Rs.	Rs.	Rs.	Rs.	Rs.	
	(*i*) BANKING—*contd.*						
55	Madaripur Popular Banking and Loan Co., Ltd.	20,000	10,000	10,000	12,900	3,06,909	..
56	Khulna Kayastha Bank, Ltd.	25,000	20,250	12,150	19,100	3,68,736	..
57	Natore United Bank, Ltd.	1,00,000	55,000	16,500	8,424	2,07,331	..
58	Bogra Bank, Ltd.	1,00,000	60,750	30,375	10,034	4,70,875	..
59	Adamdighi Mahaan Samiti, Ltd.	1,00,000	80,000	41,250	7,435	1,77,293	..
60	Town Sripur Banking and Trading Co., Ltd.	20,000	1,010	1,010	..	819	..
61	Selbarsa Bank, Ltd.	50,000	43,000	25,500	9,646	2,43,873	..
62	Arya Bank, Ltd.	50,000	40,000	40,000	26,948	1,91,080	..
63	Naogaon Islamia Bank, Ltd.	50,000	31,650	7,912	1,813	88,133	..
64	Bank of Dacca, Ltd.	5,00,000	1,46,600	51,800	..	3,70,248	..
65	East Bengal Rural Bank, Ltd.	1,00,000	1,00,000	50,000	4,000	2,16,381	..
66	Bara Pangashi Samabaya Bank, Ltd.	20,000	20,000	16,000	13,638	44,237	..
67	Jalpaiguri Town Bank, Ltd.	1,00,000	25,725	20,451	..	..	..
68	Manikganj Trading and Banking Co., Ltd.	20,000	20,000	12,000	2,101	1,50,052	..
69	Madaripur Commercial Bank, Ltd.	1,00,000	1,00,000	50,000	15,000	1,16,411	..
70	Madargipur Local Bank, Ltd.	20,000	10,000	10,000	3,800	83,171	..
71	Village Union Bank, Ltd.	20,000	12,000	12,000	3,038	39,563	..
72	Karnani Industrial Bank, Ltd.	5,00,00,000	3,00,00,000	60,00,000	1,59,434	26,65,232	..
73	Saidpur Commercial Bank, Ltd.	5,00,000	2,00,000	79,560	8,452	1,87,967	..
74	Indian Industrial Bank, Ltd.	5,00,00,000	10,46,990	5,22,157	1,19,302	64,511	..
75	Sthal Industrial Bank, Ltd.	50,000	24,225	14,535	3,293	32,778	..

76	Raikut Industrial Bank, Ltd.	10,00,000	3,64,830	3,04,184	..	20,555	..
77	Khulna Banking Corporation, Ltd.	1,00,000	29,090	24,286	580	1,25,623	..
78	City Bank, Ltd.	1,00,000	25,000	7,471	500	4,600	..
79	Pioneer Agency, Ltd.*	20,000	5,000	2,500	..	..	..
80	Kartikpur Samabaya, Ltd.	20,000	9,900	6,016	533	592	..
81	Standard Tea Co., Ltd.	5,00,000	52,270	22,186	..	..	..
82	Chaugram Banking Trading and Co., Ltd.	50,000	25,000	12,500	2,142	26,226	..
83	Northern Bengal Industrial Bank, Ltd.	6,00,000	55,950	21,794	2,211	1,02,394	..
84	Kasipur Banking and Trading Co., Ltd.	20,000	10,090	8,904	2,500	5,288	..
85	Panchbibi Industrial Bank, Ltd.	5,00,000	2,25,330	72,447	1,162	1,57,685	..
86	Barisal Bank, Ltd.	5,00,000	50,340	21,885	1,822	28,096	..
87	Jalpaiguri Industrial Bank, Ltd.	25,00,000	28,470	19,014	..	12,187	..
88	Santahar Banking and Trading Co., Ltd.	50,000	41,500	14,650	8,210	1,15,023	..
89	Lalgola Commercial Bank, Ltd.	50,000	..	..	..	..	..
90	Narayanganj Banking and Loan Co., Ltd.	1,00,000	71,000	14,200	3,200	45,893	..
91	Bengal Commercial and Industrial Bank, Ltd.	1,00,000	11,270	3,556	..	..	
92	Dinajpur Hitaisi Bank, Ltd.	1,00,000	33,000	9,180	4,314	1,28,055	..
93	Naogaon Town Bank, Ltd.	5,00,000	3,00,000	59,960	14,569	2,60,754	..
94	Mustafapur Banking and Trading Co., Ltd.	50,000	25,000	16,027	1,200	17,232	.
95	Bengal Mercantile Bank, Ltd.	5,00,000	..	..	..	..	..
96	Magura Bank, Ltd.	50,000	12,345	9,077	1,453	6,062	..
97	Banking Corporation, Ltd.*	30,000	5,500	1,100	..	..	..
98	Mymensingh Bank Commerce and Industry, Ltd.	3,00,000	1,05,610	76,525	22,324	6,644	..
99	Thakurgaon Union Bank, Ltd.	1,00,000	75,000	25,150	3,415	88,718	..
100	Ksatriya Bank, Co., Ltd.	1,00,000	30,350	15,175	..	44,053	..
101	Labourers Union Bank, Ltd.	1,00,00,000	..	..	..	..	..
102	Madaripur Industrial Bank, Ltd.	1,00,000	11,675	4,812	300	1,495	..
103	Shariakandi Trading and Banking Co., Ltd.	5,00,000	22,240	7,771	354	14,457	..
104	Falia Banking, Trading and Store Co., Ltd.	50,000	18,350	4,171	136	2,514	..
105	Vikrampur Loan Office, Ltd.	1,00,000	..	..	..	..	..
106	Par Naogaon Bank, Ltd.	5 0,000	35,000	7,000	15,794	2,52,633	..

* Private.

Serial No.	Name of Company.	Authorised capital.	Subscribed capital.	Paid up capital.	Reserve fund.	Deposits.	Rate of dividend paid during the last year for which information is available.
	1	2	3	4	5	6	7
	BENGAL—*contd.*	Rs.	Rs.	Rs.	Rs.	Rs.	
	(*i*) BANKING—*contd.*						
107	Trading Syndicate, Ltd.*	20,000	10,000	3,250	..	..	..
108	Mahajan Banking and Trading Co., Ltd.	10,00,000	28,280	28,280	..	2,26,502	..
109	Santosh Bank, Ltd.	1,00,000	43,750	8,750	5,302	94,260	..
110	Churmugia Union Bank, Ltd.	1,00,000	5,370	2,306	..	..	..
111	Narayanganj Samabaya, Ltd.	50,000	4,750	950	..	..	..
112	Sonapur Bank, Ltd.	20,000	..	..	..	..	..
113	Kishorganj National Bank, Ltd.	4,00,000	40,150	20,075	7,000	1,13,792	..
114	Bajitpur Trading and Banking Co., Ltd.	50,000	34,950	13,980	10,000	1,11,813	..
115	Belgharia Commerce and Bank, Ltd.	1,50,000	19,460	6,679	..	6,042	..
116	Ghatabari Baoikhola Banking and Trading Co., Ltd.	50,000	10,770	5,878	156	2,269	..
117	Tangail Industrial Bank, Ltd.	1,00,000	25,025	9,767	..	6,941	..
118	Chak Pangashi Industrial Bank, Ltd.	20,000	20,000	8,000	13,827	57,059	..
119	Dacca National Bank, Ltd.	1,00,000	37,420	14,354	..	2,414	..
120	Eastern Cotton Industries Bank,Ltd.	1,00,000	13,220	9,421	..	5,200	..
121	Kushtia Banking and Trading Co., Ltd.	50,000	7,810	7,810	..	703	..
122	Agri. and Piscicultural Co., Ltd.	1,00,000	22,380	8,626	..	5,416	..
123	East End Bank, Ltd.	2,50,000	45,280	25,406	..	9,138	..
124	Luxmi Industrial Bank, Ltd.	10,00,000	3,39,960	1,65,720	13,000	5,00,899	..
125	National Banking and Trading Co., Ltd.	20,000	3,950	2,225	398	..	..

126	Girija Bank, Ltd.	50,000	22,500	13,500	5,362	90,154	..
127	Debijhora Tea Co., Ltd.	3,00,000	1,23,800	45,706	..	..	..
128	Khulna Lakshmi Bank, Ltd.	25,000	11,860	7,026	..	31,180	..
129	Comilla Union Bank, Ltd.	2,00,000	1,00,000	27,530	53,000	9,45,233	..
130	Akhaya Bank, Ltd.	20,000	..	..	..	..	..
131	Berhampore Bank, Ltd.	1,00,000	17,930	13,424	6,084	2,37,600	..
132	Murshidabad Agency, Ltd.*	20,000	75	75	..	..	..
133	East Bengal Bank, Ltd.	5,00,000	2,50,000	37,550	22,500	3,86,457	..
134	Great Eastern Loan Co., Ltd.	1,00,000	7,050	4,003	..	2,650	..
135	Vikrampur Mahajan Bank, Ltd.	1,00,000	..	..	..	..	..
136	Allahabad Bank, Ltd.	40,00,000	40,00,000	35,50,000	44,50,000	11,19,20,327	..
137	Bhola Loan Association, Ltd.	50,000	21,740	15,622	..	3,064	..
138	Pioneer Bank, Ltd.	1,00,000	70,000	17,454	3,695	1,12,335	..
139	Rajshahi City Bank, Ltd.	20,000	20,000	6,000	1,099	88,877	..
140	Ganga Prasad Bank, Ltd.	20,000	15,000	4,500	2,725	39,656	..
141	Patuakhali Loan Office, Ltd.	20,000	12,330	12,000	3,447	27,170	..
142	Koshabar Loan Co., Ltd.	20,000	2,754	814	..	5,332	..
143	Nilphamari Town Bank, Ltd.	1,50,000	20,000	8,000	2,300	35,557	..
144	Atya Shahansha Bank, Ltd.	1,00,000	..	..	..	..	..
145	Lakshmi Loan Corporation, Ltd.*	30,000	25,000	5,000	..	..	..
146	Union Loan Co. (Jamalpur). Ltd.	20,000	10,000	5,000	13,500	1,11,250	..
147	Zamiate Himayet Etma, Ltd.	1,00,000	..	..	..	..	..
148	Kamarpara Bank, Ltd.	1,00,000	16,550	9,930	..	8,395	..
149	Khankhanapur Bank, Ltd.	1,00,000	14,090	7,700	..	4,708	..
150	Chittagong Bank, Ltd.	3,00,000	1,64,960	1,01,560	1,725	47,875	..
151	Galna Prasanna Bank, Ltd.	50,000	21,200	9,600	1,433	9,750	..
152	Bengal Traders Bank, Ltd.	5,00,000	1,82,700	18,140	15,000	1,42,365	..
153	Tarash Bank, Ltd.*	1,00,000	..	..	..	..	..
154	Rangpur National Bank, Ltd.	1,00,000	50,000	9,880	1,800	1,17,266	..
155	Kumar's Credit Corporation, Ltd.*	25,000	..	..	..	..	..
156	Comilla Islamia Bank, Ltd.	1,00,000	35,175	14,529	950	4,893	..
157	Nilphamari Luxmi Bank, Ltd.	50,000	10,000	7,940	3,395	55,899	..
158	Naogaon People's Bank, Ltd.	1,00,000	85,000	17,000	6,026	1,02,154	..
159	Bogra National Bank, Ltd.	50,000	31,000	5,100	..	7,447	..
160	Dakshin Kalikatcha Loan Co., Ltd.	50,000	20,440	10,208	2,647	18,760	..
161	Rangpur Rayat Bank, Ltd.	1,00,000	41,000	24,600	1,963	59,269	..
162	Gurudaspur Trading Bank, Ltd.	1,00,000	42,200	10,533	327	29,534	..
163	Naogaon Atrai Bank, Ltd.	1,00,000	60,000	12,000	1,800	1,12,477	..

* Private.

Serial No.	Name of Company.	Authorised capital.	Subscribed capital.	Paid up capital.	Reserve fund.	Deposits.	Rate of dividend paid during the last year for which information is available.
	1	2	3	4	5	6	7
	BENGAL—*contd.*	Rs.	Rs.	Rs.	Rs.	Rs.	
	(*i*) BANKING—*contd.*						
164	Gandha Bank Commercial Bank, Ltd.	1,00,000	10,552	9,808	..	6,197	..
165	Victoria Bank, Ltd.	1,00,000	17,460	3,492	..	3,072	..
166	Nilphamari Kamala Bank, Ltd.	50,000	10,000	8,227	765	16,605	..
167	Satsang Bank, Ltd.	1,00,000	5,550	3,810	165	8,482	..
168	Vikrampur Banking and Trading Co., Ltd.	1,00,000	16,730	8,172	..	2,404	..
169	Rangpur Mahajan Bank, Ltd.	1,00,000	45,000	16,992	873	38,274	..
170	Bamandanga Loan Office, Ltd.	50,000	24,450	4,827	2,125	73,794	..
171	Durgahatta Loan Co., Ltd.	50,000	25,000	12,500	1,174	27,659	..
172	Orakandi Loan Office, Ltd.	20,000	5,330	3,945	..	2,069	..
173	Kurigram Bazar Bank, Ltd.	20,000	10,000	6,985	401	34,515	..
174	Haturia Bank, Ltd.	25,000	7,250	4,350	925	1,339	..
175	Pioneer Trading Bank, Ltd.	1,00,000	9,770	4,885	..	3,361	..
176	Bengal Banking and Trading Co., Ltd.	1,00,000	54,860	30,803	10,500	1,06,216	..
177	Sujanagar Banking, Trading and Industrial Co., Ltd.	2,00,000	..	..	..	..	..
178	Mesta Ideal Bank and Commerce, Ltd.	1,00,000	..	..	..	..	..
179	Lesraganj Bank, Ltd.	50,000	25,000	7,448	..	3,055	..
180	Backerganj Commercial Bank, Ltd.	20 000	..	..	..	..	..
181	Palli Mangal Bank, Ltd.	2,50,000	25,000	10,000	2,371	45,015	..
182	Shyamganj Bank, Ltd.	1,00,000	7,210	3,605	1,500	26,345	..
183	Chandpur Bank, Ltd.	1,00,000	40,675	7,265	1,500	92,202	..
184	Gossaibari Mahajan Bank, Ltd.	1,00,000	34,900	17,200	2,637	26,768	..
185	Punjab Banking Co., Ltd.*	7,50,000	6,00,000	6,00,000	..	..	..
186	Nilphamari Mahajan Bank, Ltd.	50,000	20,000	8,891	650	61,088	..

187	Singra Ranbagha Industrial Bank, Ltd.	5,00,000	1,24,150	23,621	..	37,895	..
188	Jalpaiguri National Bank, Ltd.	2,00,000	7,600	1,968	..	..	..
189	Bhitarband Loan Office, Ltd.	30,000	15,000	7,455	1,000	11,060	..
190	Vaisya (Sutradhar) Banking and Trading Co., Ltd.	1,00,000	27,070	7,290	39	6,123	..
191	Talshahar Bank, Ltd.	20,000	..	..	..	..	..
192	Manikganj Bazar United Bank, Ltd.	50,000	25,000	9,960	192	12,025	..
193	Brahmanbaria Mahakuma Bank, Ltd.	20,000	8,300	6,225	1,285	50,292	..
194	Brahmanbaria Kamala Bank, Ltd.	20,000	4,000	4,000	79	27,352	..
195	Noakhali Nath Bank, Ltd.	2,00,000	82,950	20,094	..	16,633	..
196	Puranbazar Bank, Ltd.	2,00,000	..	..	..	..	..
197	Tripura National Bank, Ltd.	1,00,000	50,000	13,930	4,500	56,718	..
198	Comilla Bank, Ltd.	1,00,000	38,000	10,435	1,200	41,535	..
199	Bhanga Public Bank, Ltd.	20,000	16,250	13,000	450	7,788	..
200	Hasnabad Loan and Trading Co., Ltd.	50,000	..	..	..	..	..
201	Narayanganj Union Bank, Ltd.	50,000	..	..	..	..	..
202	Bengal Oriental Bank, Ltd.	2,00,000	50,700	10,044	1,407	18,535	..
203	Chelikhola Model Bank, Ltd.	50,000	20,000	7,525	4,531	27,963	..
204	Tripura Popular Bank, Ltd.	1,00,000	35,000	8,940	1,850	27,611	..
205	Kakna Loan Office, Ltd.	50,000	16,600	3,240	1,544	11,076	..
206	Bangiya Krishi Bank, Ltd.	1,00,000	..	..	..	..	..
207	Comilla Model Bank, Ltd.	1,00,000	16,550	10,160	1,185	33,287	..
208	Rajshahi Industrial Bank, Ltd.	40,000	24,875	4,975	..	30,519	..
209	Karunamayee Bank, Ltd.	2,00,000	..	..	..	..	..
210	Husainpur Loan Co., Ltd.	50,000	14,750	5,800	410	3,376	..
211	Mohiramkole Trading Bank, Ltd.	50,000	5,550	1,665	250	13,969	..
212	Calcutta Bank, Ltd.*	50,000	..	..	..	..	..
213	Noakhali Baidya Brahman Bank, Ltd.	1,00,000	..	..	..	..	..
214	Kalikatcha Chakshor Moslem Bank, Ltd.	20,000	1,630	1,630	..	120	..
215	Tulshighat Bank, Ltd.	1,00,000	30,440	2,999	105	17,085	..
216	Kalam Loan Office, Ltd.	1,00,000	50,100	7,835	..	8,357	..
217	Mahalaxmi Industrial & Trading Bank, Ltd.*	20,000	..	..	..	..	..
218	Serajganj National Bank, Ltd.	50,000	11,760	5,040	..	5,307	..
219	Central Mymensingh Loan Co., Ltd.	1,00,000	..	..	..	..	..

*Private.

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	1	2	3	4	5	6	7
	BENGAL—*contd.*	Rs.	Rs.	Rs.	Rs.	Rs.	
	(*i*) BANKING—*contd.*						
220	Srikrisna Bank, Ltd.	1,00,000	6,660	943	..	2,533	..
221	Rangpur Commercial Bank, Ltd.	1,00,000	23,225	3,085	219	27,391	..
222	Kanchan Banking & Trading Co., Ltd.	1,00,000	25,350	9,203	..	10,515	..
223	Palli Lakshmi Bank, Ltd.	50,000	..	..	..	..	..
224	Nilphamari Nutun Bazar Bank, Ltd.	50,000	..	..	..	..	..
225	Vaisya Barujibi Bank, Ltd.	1,00,000	..	..	..	..	..
226	Jamalpur Model Bank, Ltd.	50,000	..	..	..	..	..
227	Brahmanbaria Bankers Union, Ltd.	7,00,000	19,230	8,537	..	..	..
228	Dogachi Saidpur United Bank, Ltd.	20,000	12,740	5,956	800	15,264	..
229	Dayamayee Industry & Bank, Ltd.	1,00,000	8,950	3,087	..	6,601	..
230	Sash Kandar Jotedars Banking & Trading Co., Ltd.	20,000	10,000	8,827	288	7,786	..
231	Madhail Banking & Trading Co., Ltd.	1,00,000	..	..	..	..	..
232	Alamnagar Bank, Ltd.	50,000	20,800	4,100	400	38,551	..
233	Lohajang Loan Co., Ltd.	1,00,000	21,700	11,020	..	3,214	..
234	Balihar Bank, Ltd.	50,000	..	..	..	..	..
235	Rudrapal Industrial Bank, Ltd.	1,00,000	30,000	2,960	..	10,183	..
236	Sitlai Industrial & Agricultural Bank, Ltd.	50,000	10,000	3,940	..	3,653	..
237	Kalam Peoples Bank, Ltd.	1,00,000	34,850	5,515	..	9,846	..
238	Sonamukhi Uttar Bangla Bank, Ltd.	1,00,000	..	..	..	..	..

239	Konda Loan Co., Ltd.	20,000	..	..	..	..	..	..
240	Ishchhamayee Bank, Ltd.	20,000	16,350	3,250	..	31,603	..	..
241	Brahmanbaria Model Bank, Ltd.	30,000	20,000	7,310	259	31,350	.	.
242	Forward Bank of India, Ltd.	5,00,000	..	..	..	..	.	.
243	Ashuganj Kuhinure Bank, Ltd.	50,000	..	..	..	..	.	.
244	Eastern Union Bank, Ltd.	5,00,000	..	..	..	..	.	.
245	Karakdi Jagaran Bank, Ltd.	50,000	..	..	..	..	.	.
246	Kashimnagor Islamia Trading & Banking Co., Ltd.	1,00,000	..	..	..	..	.	.
247	Nilphamari Jotedars Bank, Ltd.	50,000	..	..	..	..	.	.
248	Midland Bank (India), Ltd.	5,00,000	75,675	15,750	..	38,207	.	.
249	Baritali Corporation Bank, Ltd.	50,000	11,640	1,845	..	1,530	.	.
250	Raj Luxmi Bank, Ltd.	1,00,000	..	..	..	..	.	.
251	Gaibandha City Bank, Ltd.	50,000	..	..	..	..	.	.
252	Domar Jagat Lukshi Banking & Trading Co., Ltd.	50,000	10,000	3,817	..	3,651	.	.
253	Patgram Banking & Trading Corporation, Ltd.	1,00,000	..	..	..	..	.	.
254	Bhawal Industrial Bank, Ltd.	50,000	..	..	..	..	.	.
255	Bahadurabad Model Bank & Trading, Ltd.	50,000	6,480	3,240	..	..	.	.
256	Dighapatiya Bank, Ltd.	50,000	30,000	8,460	..	48,555	.	.
257	Gopalgunj Public Bank, Ltd.	50,000	..	..	..	..	.	.
258	Muslim Banking & Trading Corporation, Ltd.	20,000	..	..	..	..	.	.
259	Brahmanbaria New Bank, Ltd.	20,000	12,000	6,000	..	6,650	.	.
260	Paikora Rajendra Mohan Bank, Ltd.	30,000	..	..	..	..	.	.
261	Rangpur Mahalakshmi Bank, Ltd.	50,000	22,220	4,039	..	12,554	.	.
262	Parbartak Bank, Ltd.*	20,000	..	..	..	..	.	.
263	Dinabandhu Bank, Ltd.	20,000	..	..	..	..	.	.
264	Bhola Industrial Bank, Ltd.	2,00,000	..	..	..	..	.	.
265	Bhola Rindan Office, Ltd.	50,000	..	..	..	..	.	.
266	Bank and Chemical Works, Ltd.	50,000	..	..	..	..	.	.
267	East Mymensingh Loan Co., Ltd.	1,00,000	..	..	..	..	.	.
268	Feni New Bank, Ltd.	20,000	..	..	..	..	.	.
269	Rangpur City Bank, Ltd.	1,00,000	..	..	..	..	.	.
270	Badarganj Bank, Ltd.	50,000	..	..	..	..	.	.

* Private.

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	1	2	3	4	5	6	7
	BENGAL—*contd.*						
	(*i*) BANKING—*contd.*	Rs.	Rs.	Rs.	Rs.	Rs.	
271	Samganj Loan, Co., Ltd.	50,000	18,200	7,230	..	9,723	..
272	Jamurki Bank, Ltd.	20,000	..	..	..	..	..
273	Chandanbaisa United Bank, Ltd.	20,000	..	..	..	..	..
274	Nator Loan Office, Ltd.	1,50,000	..	..	..	..	..
275	Bengal Industrial Union Bank, Ltd.	1,00,000	..	..	..	..	..
276	East Indian Central Bank, Ltd.	1,00,000	..	..	..	..	..
277	Badarganj Union Bank, Ltd.	50,000	..	..	..	..	..
278	Samaj Sakti Bank, Ltd.	1,00,000	..	..	..	..	..
279	Bogra City Bank, Ltd.	1,00,000	29,700	6,945	..	17,284	..
280	Rangpur Kamala Bank, Ltd.	50,000	..	..	..	..	..
281	Shahzadpur Trading and Banking Corporation, Ltd.	1,00,000	..	..	..	..	
282	Shahzadpur Lakshmi Narayan Bank, Ltd.	50,000	..	..	..	..	..
283	Hindu Banking and Trading Co., Ltd.	50,000	..	..	..	..	..
284	Dighapara Loan Co., Ltd.	20,000	..	..	..	..	..
285	New Bank, Ltd.	20,000	..	..	..	..	..
286	Kanialkhata Bank, Ltd.	50,000	..	..	..	..	..
287	Lahiri Mohanpur Commercial Bank, Ltd.	1,00,000	..	..	..	..	..
288	Shaghata Banking Co., Ltd.	50,000	..	..	..	..	
289	Bogra Kamala Bank, Ltd.	1,00,000	..	..	..	..	..
290	Khetlal Bank, Ltd.	1,00,000	..	..	..	..	..

291	Munshipara Banking and Trading Co., Ltd.	1,00,000	..	..	..	..	..
292	Kanyakubja Bank, Ltd.	10,00,000	..	..	..	..	..
293	Parbatipur Union Bank, Ltd.	1,00,000	..	..	..	..	..
294	Bogra Bankers and Planters Corporation, Ltd.	10,00,000	..	..	..	..	..
295	Sreebaradi Sambhuganja Kshatriya Bank, Ltd.	50,000	..	..	..	..	..
296	Chilmari Union Bank, Ltd.	20,000	..	..	..	..	..
297	Mymensingh Fulbaria Bank, Ltd.	50,000	..	..	..	..	..
298	Indo-Burmah Traders Bank, Ltd.	1,00,000	..	..	..	..	..
299	Mortgage Bank, Ltd.	2,00,000	..	..	..	..	..
300	Bhairab Central Bank, Ltd.	1,00,000	..	..	..	..	..
301	Bonarpara Bank, Ltd.	50,000	..	..	..	..	..
302	Rangpur Central Bank, Ltd.	10,00,000	..	..	..	..	..
303	Kamarjani Trading Bank, Ltd.	1,00,000	..	..	..	..	..
304	Rajshahi Kamala Loan Office, Ltd.	40,000	..	..	..	..	..
305	Radhanath Bank, Ltd.	50,000	..	....	..	..	..
306	Economic Bank, Ltd.	1,00,000	..	..		..	..
307	Koondi Banking and Trading Co., Ltd.	1,00,000	..	..	..	..	..
308	Jamalganj Bank, Ltd.	1,00,000	..	..	..	..	..
309	Tripura Modern Bank, Ltd.	1,00,000	..	..	..	..	..
310	Brahmanbaria Commercial and Agricultural Bank, Ltd.	30,000	..	..	..	..	..
311	Mahimaganj United Bank, Ltd.	50,000	..	..	..	..	..
312	Choudhury Brothers Bank, Ltd.	50,000	..	..	..	..	..
313	Swaraj Bank, Ltd.	25,00,00,000	..	..	..	..	..
314	Ashuganj Sunlight Bank, Ltd.	1,00,000	..	..	..	..	..
315	Badarganj Merchants' Bank, Ltd	50,000	..	..	..	..	..
316	Gandheswari Bank, Ltd.	1,00,000	..	..	..	..	..
317	Sunlight Bank, Ltd.	1,00,000	..	..	..	..	..
318	Chaitrahati Banking and Agency Co., Ltd.*	20,000	..	..	..	..	..
319	Nilphamari Sakti Bank, Ltd.	1,00,000	..	..	..	..	..
320	Bagmara Bank, Ltd.	50,000	..	..	..	..	..
321	Patit Paban Bank, Ltd.	50,000	..	..	..	..	..
322	Ghoramara Banking and Trading Co., Ltd.	1,00,000	..	..	..	..	..
323	Gaibandha Kohinoor Bank, Ltd.	50,000	..	..	..	..	..

* Private.

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	1	2	3	4	5	6	7
	BENGAL—*contd.*	Rs.	Rs.	Rs.	Rs.	Rs.	
	(*i*) BANKING—*concld.*						
324	District Bank, Ltd.	50,000	..	..	..	..	..
325	Metropolitan Industrial Bank, Ltd.*	1,00,000	..	..	..	..	..
326	Gaibandha Raiya Bank, Ltd.	1,00,000	..	..	..	..	..
327	Gaibandha Model Bank, Ltd.	50,000	..	..	..	..	..
328	Gaibandha Commercial Bank, Ltd.	50,000	..	..	..	..	..
329	Prabartak Trading and Banking Co., Ltd. *	1,00,000	..	..	..	..	..
330	Sundarganj Bank, Ltd.	1,00,000	..	..	..	..	..
331	Mogalhat National Bank, Ltd.	1,00,000	..	..	..	..	..
332	The Useful Bank, Ltd.	50,000	..	..	..	..	..
333	Singair Loan and Trading Co., Ltd.	50,000	..	..	..	..	..
334	Mahajan Samavaya (Bengal), Ltd.	50,000	..	..	..	..	..
335	Srikail Bank, Ltd.	50,000	..	..	..	..	..
336	Madati Bholanath Bank, Ltd.	1,00,000	..	..	..	..	..
337	Bharat Loan Co., Ltd.	20,000	..	..	..	..	..
338	Gazna Banking and Trading Co., Ltd.	50,000	..	..	..	..	..
339	Hatsherpur Navasakti Bank, Ltd.	1,00,000	..	..	..	..	..
340	Tantar United Bank, Ltd.	20,000	..	..	..	..	..
341	Minerva Banking and Trading Corporation, Ltd.	50,000	..	..	..	..	..
342	Kayastha Federation, Ltd.	2,50,000	..	..	..	..	..
343	Belka Bank, Ltd.	1,00,000	..	..	..	..	..
344	Abhoya Bank, Ltd.	1,00,000	..	..	..	..	..
345	Khaduli Commercial Bank, Ltd.	20,000	..	..	..	..	..

346	Credit Bank of India, Ltd.*	1,00,000	..	..	..	..	..
347	Saralia Bank, Ltd.	1,00,000	..	..	..	..	..
348	Kajla Bank, Ltd.	50,000	..	..	..	..	..
349	Kuti Anandamayee Baishya Shaha Fund, Ltd.	18,000	..	..	..	..	..
350	Kuti Mahalaksmi Bank, Ltd.	2,00,000	..	..	..	..	..
351	Globe Investment Corporation, Ltd.	1,00,000	..	..	..	..	..
352	Udhunia Laksmi Narayan Loan Co., Ltd.	20,000	..	..	..	..	..
353	Boalia Bank, Ltd.	50,000	..	..	..	..	..
354	Ambaria Bank, Ltd.	20,000	..	..	..	..	..
355	Uttar Banga Dadan Samiti, Ltd.	1,00,000	..	..	..	..	..
356	Salika Loan Office, Ltd.	1,00,000	..	..	..	..	..
357	Badarganj Popular Bank, Ltd.	1,00,000	..	..	..	..	..
358	Lakshmipur Paul Bank, Ltd.	50,000	..	..	..	..	..
359	Rangpur Unique Bank, Ltd.*	20,000	..	..	..	..	..
360	Kamarpur Bank, Ltd.	1,00,000	..	..	..	..	..
361	Lion Bank, Ltd.	1,00,000	..	..	..	..	..
362	Pabna Loan Co., Ltd.	20,000	..	..	..	..	..
363	Bengal Provincial Loan Co., Ltd.	10,00,000	..	..	..	..	..
364	Mather Bazar Loan Office, Ltd.	50,000	..	..	..	..	..
365	Indo Danish Bank, Ltd.*	1,00,000	..	..	..	..	..
366	Betgari Banking and Trading Co., Ltd.	1,00,000	..	..	..	..	..
367	Gobindganj Bank, Ltd.	50,000	..	..	..	..	..
368	Fulchhari Loan Office, Ltd.	50,000	..	..	..	..	..
369	Raiyat Bank, Ltd.	2,00,000	..	..	..	..	..
370	Bengal Finance Co., Ltd.	2,00,000	..	..	..	..	..
371	Bharatkhali Bank, Ltd.	50,000	..	..	..	..	..
372	Bharatkhali Banking and Trading Co., Ltd.	50,000	..	..	..	..	..
373	Bogra Banking Corporation, Ltd.	1,00,000	..	..	..	..	..
374	New Bengal Bank, Ltd.	1,00,000	..	..	..	..	..
375	Kamalanka Bank, Ltd.	1,00,000	..	..	..	..	..
376	Dhap Bank, Ltd.	50,000	..	..	..	..	..
377	Chittagong Central Banking Corporation, Ltd.	5,00,000	..	..	..	..	..
378	Friendly Bank, Ltd.	20,000	..	..	..	..	..
379	Satmurah Loan Co., Ltd.	50,000	..	..	..	..	..

*Private.

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	1	2	3	4	5	6	7
		Rs.	Rs.	Rs.	Rs.	Rs.	
	BENGAL—*contd.*						
	(*ii*) LOAN.						
380	Tippera Loan Office, Ltd.	1,00,000	1,00,000	1,00,000	58,593	2,86,824	..
381	Mymensingh Loan Office, Ltd.	1,00,000	80,400	80,400	63,825	3,41,692	..
382	Barisal Loan Office, Ltd.	1,00,000	18,950	18,950	2,45,322	5,41,726	..
383	Nasirabad Loan Office, Ltd.	50,000	45,200	45,200	52,743	3,27,781	..
384	Bogra Loan Office, Ltd.	60,000	59,030	59,030	40,145	19,80,704	..
385	Jessore Loan Co., Ltd.	1,20,000	1,00,000	1,00,000	4,65,524	48,26,784	..
386	Sahar Sherpur Loan Office, Ltd.	20,000	16,210	16,210	..	70	..
387	Munshiganj Loan Office, Ltd.	20,000	12,060	12,060	15,733	1,59,428	..
388	Dacca Loan Office, Ltd.	1,00,000	62,200	62,200	500	32,917	..
389	Kishoreganj Loan Office, Ltd.	50,000	40,000	40,000	65,000	5,94,812	..
390	Noakhali Loan Office, Ltd.	20,000	15,000	15,000	30,432	4,28,732	..
391	Tangail Loan Office, Ltd.	50,000	44,310	44,310	3,858	32,033	..
392	Kurigram Loan Office, Ltd.	20,000	20,000	20,000	73,000	6,33,010	..
393	Khulna Loan Co., Ltd.	45,000	44,660	44,660	25,181	14,67,447	..
394	Bagirhat Loan Co., Ltd.	20,000	20,000	20,000	91,675	7,11,261	..
395	Madaripur Loan Office, Ltd.	20,000	10,000	10,000	41,254	6,06,996	..
396	Rangpur Loan Office, Ltd.	50,000	47,000	47,000	2,78,801	24,50,508	..
397	Nilphamari Loan Office, Ltd.	50,000	40,000	40,000	52,137	5,38,280	..
398	Ulipur Loan Co., Ltd.	20,000	19,800	19,800	47,903	1,35,609	..
399	Uluberia Loan Office Co., Ltd.	1,20,000	69,530	67,646	17,466	59,691	..
400	Basirhat Loan Co., Ltd.	50,000	20,000	20,000	18,789	2,25,865	..
401	Brahmanbaria Loan Co., Ltd.	20,000	12,000	12,000	1,82,275	5,86,993	..
402	Tamluk Loan Office Co., Ltd.	30,000	20,000	20,000	28,000	5,25,775	..
403	Lakshmicole Rajbari Loan Office, Ltd.	50,000	25,000	25,000	9,656	2,38,394	..

404	Rajnagar Loan and Trading Co., Ltd.*	20,000	10,400	10,400	..	..	..
405	Jalpaiguri Luxmi Bank, Ltd.	1,50,000	42,600	42,600	45,522	87,040	..
406	Serajganj Loan Office, Ltd.	50,000	25,000	25,000	1,05,120	2,39,016	..
407	Itail Loan Office, Ltd.	20,000	20,000	20,000	13,702	20,952	..
408	Gaibandha Loan Office, Ltd.	50,000	40,000	40,000	57,974	5,43,174	..
409	Kalikachha Loan Co., Ltd.	20,000	12,500	12,500	11,835	61,998	..
410	Kustia Loan Office, Ltd.	30,000	25,100	20,000	14,024	1,28,094	..
411	Baderganj Loan Office, Ltd.	20,000	11,000	11,000	16,000	2,73,776	..
412	Narail Loan Co., Ltd.	30,000	16,830	13,354	38,212	1,18,069	..
413	Mahiganj Loan Office, Ltd.	50,000	18,000	18,000	13,934	1,49,625	..
414	Noakhali Loan Office, Ltd.	1,00,000	50,000	50,000	52,500	3,81,374	..
415	Singhajani Loan Office, Ltd.	50,000	20,000	20,000	45,000	3,23,826	..
416	Naogaon Loan Office, Ltd.	50,000	32,500	19,500	45,758	5,17,523	..
417	Barisal Rindan Samiti, Ltd.	20,000	20,000	16,000	7,778	8,57,524	..
418	Manickganj Loan Office, Ltd.	50,000	25,000	12,500	27,800	5,80,026	..
419	Jhenidah Loan Office, Ltd.	50,000	25,000	25,000	9,000	1,45,340	..
420	Model Loan Office Co., Ltd.	2,00,000	2,570	1,346	..	..	..
421	Chikandi Loan Office, Ltd.	20,000	20,000	10,000	9,085	72,410	..
422	Taherpur Loan Office, Ltd.	20,000	20,000	16,020	47,040	1,01,605	..
423	Chilmari Loan Office, Ltd.	50,000	25,000	14,690	32,438	..	..
424	Stuartganj Loan Co., Ltd.	20,000	..	..	..	..	..
425	Siliguri Loan Office, Ltd.	50,000	25,000	25,000	..	1,05,604	..
426	National Loan Co., Ltd.	2,00,000	3,200	1,045	..	1,385	..
427	Khayerabad Loan Office, Ltd.	20,000	15,520	15,485	11,542	46,459	..
428	Jamalpur Loan Office, Ltd.	30,000	10,000	10,000	53,000	5,24,748	..
429	Jalpaiguri Union Loan Office, Ltd.	50,000	46,240	36,110	2,000	4,954	..
430	Bhanga Loan Office, Ltd.	20,000	15,000	15,000	12,400	1,80,611	..
431	Gaybari Loan Office, Ltd.	30,000	22,500	22,500	3,910	18,355	..
432	Belka Loan Office, Ltd.	30,000	30,000	15,000	1,808	57,958	..
433	Kurigram Union Loan Co., Ltd.	20,000	20,000	7,496	6,796	1,41,889	..
434	Bengal Loan Co., Ltd.	2,00,000	..	..	..	..	..
435	Jhalakati Loan Office, Ltd.	1,00,000	6,430	4,433	..	..	..
436	Bengal Central Bank, Ltd.	10,00,000	3,29,850	1,68,305	90,000	16,23,357	..
437	Perojpur Loan Co., Ltd.	50,000	20,000	20,000	12,000	30,782	..
438	Jagodamba Loan Co., Ltd.*	5,00,000	4,72,020	4,72,020	..	..	..
439	Palong Loan Co., Ltd.	20,000	20,000	20,000	5,054	24,343	..
440	Shariakandi Loan Co., Ltd.	1,00,000	60,000	22,000	10,488	54,390	..
441	Alipur Duar Loan Office, Ltd.	1,00,000	19,550	11,118	..	153	..
442	Magura Loan Co., Ltd.	50,000	20,000	19,940	2,026	1,670	..

*Private.

Serial No.	Name of Company.	Authorised capital.	Subscribed capital.	Paid up capital.	Reserve fund.	Deposits.	Rate of dividend paid during the last year for which information is available.
	1	2	3	4	5	6	7
		Rs.	Rs.	Rs.	Rs.	Rs.	
	BENGAL—*contd.*						
	(ii) LOAN—*contd.*						
443	Exchange Loan Co., Ltd.	1,00,000	41,750	34,960	..	..	..
444	Porjona Loan Co., Ltd.	50,000	22,750	13,560	4,600	1,01,131	..
445	Sherpur Sammilani Loan Office, Ltd.	1,00,000	50,000	20,000	27,870	1,73,557	..
446	Bogra Banking and Trading Co. Ltd.	1,00,000	97,900	29,117	4,010	1,60,434	..
447	Dinajpur Loan Office, Ltd.	1,00,000	2,000	3,592	17,065	2,90,553	..
448	Haripur Loan Office, Ltd.	30,000	16,090	8,353	920	7,541	..
449	Kutabpur Loan Co., Ltd.	20,000	10,310	8,182	1,638	8,362	..
450	East India Loan and Banking Corporation, Ltd.	5,00,000	22,375	9,510	..	53,900	..
451	Nawabganj Town Bank, Ltd.	50,000	12,500	12,300	7,642	7,14,160	..
452	Chandpur Loan Office, Ltd.	1,00,000	43,625	27,012	9,500	12,560	..
453	Sarisabari Bank and Loan Office, Ltd	50,000	14,000	14,000	13,200	35,145	..
454	Jayapur Bogra Bank, Ltd.	1,00,000	10,590	5,910	..	1,896	..
455	Star of India Tea and Finance, Ltd.	2,50,000	47,690	46,912	3,310	8,617	..
456	Moorshidabad Loan Office, Ltd.	1,00,000	37,525	10,376	3,900	32,997	..
457	Udhunia Banking and Trading Co., Ltd.	20,000	20,000	10,000	6,164	51,685	..
458	Rosheya Trading and Banking Co., Ltd.*	1,00,000	1,00,000	99,990	..	..	..
459	Industrial Loan Co., Ltd.	5,00,000	15,120	14,095	3,000	93,965	..
460	Pirgacha Loan Office, Ltd.	50,000	30,000	15,000	8,500	89,190	..
461	Tajhat Loan Office, Ltd.	2,00,000	15,630	3,914	..	6,657	..
462	Mymensingh Industrial Loan Office, Ltd.	1,00,000	33,000	28,101	6,875	1,18,154	..
463	Bajitpur Industrial Loan Office, Ltd..	50,000	25,740	12,978	776	15,546	..

464	Pioneer Central Loan Office, Ltd.	2,00,000	40,260	4,026	..	..	..
465	Akkelpore Loan Office, Ltd.	2,00,000	70,000	14,000	4,522	82,802	..
466	Solak Loan Co., Ltd.	20,000	19,730	13,811	1,000	41,680	..
467	Gouripur Loan Office, Ltd.	50,000	50,000	20,000	18,202	5,11,053	..
468	Kalkini Loan and Trading Co., Ltd.	1,00,000	11,761	5,538	..	2,435	..
469	Santahar Union Co., Ltd.	2,00,000	60,000	18,967	1,403	42,047	..
470	Alliance Loan Co., Ltd.	2,00,000	16,890	8,166	533	1,571	..
471	Bogra United Bank, Ltd.	50,000	44,900	13,057	4,382	99,594	..
472	Patgram Loan and Trade Concern, Ltd.	50,000	22,225	11,759	82	31,670	..
473	Dewanganj Bank and Industry, Ltd.	1,00,000	15,000	15,000	31,000	1,11,588	..
474	Agricultural and Industrial Loan Co., Ltd.	5,00,000	23,710	12,256	..	165	..
475	Gosainbary Loan Co., Ltd.	50,000	25,370	25,250	4,290	46,109	..
476	Chatmohar Loan Office, Ltd.	1,00,000	40,280	11,939	..	4,125	..
477	Nandina Bank and Commerce, Ltd.	1,00,000	15,000	7,500	20,000	63,705	..
478	Khulna Mercantile Loan Bank, Ltd.	1,00,000	48,830	27,972	..	18,401	..
479	Lalmonirhat Union Bank, Ltd.	1,00,000	50,000	20,000	580	26,851	..
480	Popular Loan Office, Ltd.	50,000	23,975	9,220	..	3,388	..
481	Hatsherpur Loan Office, Ltd.	50,000	29,770	7,277	3,472	27,956	..
482	Melandaha Loan Office, Ltd.	1,00,000	13,300	6,650	16,100	75,347	..
483	Manikganj Industrial Bank, Ltd.	50,000	25,000	7,490	1,463	38,925	..
484	Netrakona Loan Office, Ltd.	50,000	14,750	10,223	5,200	1,40,771	..
485	Nalitabari Loan Office, Ltd.	1,00,000	15,000	7,500	14,500	77,046	..
486	Balijuri Loan Office, Ltd.	1,00,000	18,500	9,250	20,000	54,913	..
487	Jamalpur Banking Corporation, Ltd.	50,000	11,650	8,155	15,500	70,922	..
488	Jafarshahi Loan Office, Ltd.	50,000	18,420	9,210	20,100	1,20,391	..
489	Anandaganj Bank Ltd.	1,00,000	10,000	5,000	14,000	88,786	..
490	Mohanpur Trading Bank, Ltd.	50,000	31,325	9,394	5,915	42,600	..
491	Iswarganj Loan Office, Ltd.	50,000	20,000	10,000	11,000	76,944	..
492	Rajshahi Chitragupta Bank, Ltd.	20,000	..	..	..	..	..
493	Kendua Kalibari Mesta Union Loan Office, Ltd.	50,000	11,030	5,515	6,500	25,566	..
494	Bhatbera Trading and Banking Co., Ltd.	25,000	21,475	6,207	874	14,920	..
495	Gopalgunge Krishi "O" Loan Bank, Ltd.	1,00,000	12,900	12,630	4,500	51,850	..
496	Kendu Kalibari Loan Office, Ltd.	1,00,000	10,000	5,000	15,000	58,863	..
497	Bogabaid Loan Co., Ltd.	50,000	10,000	5,000	5,000	43,138	..
498	Krishi Bank, Ltd.	50,000	..	..	..	..	..

*Private.

Serial No.	Name of Company.	Authorised capital.	Subscribed capital.	Paid up capital.	Reserve fund.	Deposits.	Rate of dividend paid during the last year for which information is available.
	1	2	3	4	5	6	7
	BENGAL—*contd.*	Rs.	Rs.	Rs.	Rs.	Rs.	
	(*ii*) LOAN—*contd.*						
499	Govindapur Loan Office, Ltd.	50,000	9,500	4,690	10,750	40,634	..
500	Baksigunge Loan Office, Ltd.	1,00,000	17,220	8,610	3,500	34,731	..
501	Goalundo Trading and Bank, Ltd.	1,00,000	22,470	15,822	..	33,014	..
502	Iswarganj Popular Bank, Ltd.	50,000	19,970	9,985	8,115	71,294	..
503	Popular Commercial Bank, Ltd.	1,00,000	37,550	23,595	..	3,621	..
504	Bogra Kohinoor Bank, Ltd.	50,000	30,000	7,233	1,180	44,927	..
505	Lakhipur Loan Co., Ltd.	20,000	20,000	16,000	1,756	42,210	..
506	Serajgunj Bank, Ltd.	50,000	21,470	6,885	1,759	54,352	..
507	Barendra Bank, Ltd.	1,00,000	60,000	16,802	1,456	57,027	..
508	Jamalpur Merchants Bank, Ltd.	1,00,000	6,640	3,320	1,509	27,655	..
509	Adamdighi Kundu Bhratri Sangha, Ltd.*	50,000	45,000	22,500	..	..	..
510	Dewanganj Loan Co., Ltd.	50,000	15,880	7,940	14,500	85,101	..
511	Town Bank, Ltd.	1,00,000	..	..	..	..	..
512	Thakurgaon Loan Co., Ltd.	30,000	..	..	..	..	..
513	Trade Union Loan Co., Ltd.	1,00,000	24,321	24,321	..	4,250	..
514	Kharma Loan Co., Ltd.	1,00,000	12,370	5,995	..	16,410	..
515	Fulkocha Loan Office, Ltd.	50,000	10,600	5,300	6,500	49,908	..
516	Faridpur Popular Bank, Ltd.	1,00,000	[37,030	11,879	..	9,967	..
517	Narayanpur Bank and Loan Office, Ltd.	50,000	6,500	4,410	3,120	26,309	..
518	Shibganj Loan Co., Ltd.	50,000	15,190	7,595	10,000	83,397	..
519	Sherpur Loan and Commerce, Ltd.	50,000	7,120	3,560	..	31,153	..
520	Sherpur Dayamayee Bank and Loan Office, Ltd.	50,000	14,900	7,450	13,500	73,728	..
521	Nabinagar Banking and Loan Co., Ltd.	50,000	25,540	10,216	..	[9,106	..

522	Patiladaha Loan Co., Ltd.	50,000	9,880	4,940	4,500	44,223	..
523	Bogra Krishi Bank, Ltd.	50,000	..	..	..	..	..
524	Noakhali Bank, Ltd.	1,00,000	..	..	..	..	..
525	Sharishabari Mahajan Bank, Ltd.	50,000	10,390	5,195	1,500	69,534	..
526	Naogaon Mohajan Bank, Ltd.	50,000	35,000	7,000	700	60,712	..
527	Mulchar Loan Office, Ltd.	20,000	1,125	785	..	1,830	..
528	Atharabari Palleesree Bank, Ltd.	2,00,000	82,600	41,300	3,790	1,78,846	..
529	Sonatala Loan Office, Ltd.	50,000	34,000	10,707	720	29,574	..
530	Gaibandha Mahajan Bank, Ltd.	1,00,000	50,000	5,000	1,000	78,505	..
531	Jamalpur Chittaranjan Bank, Ltd.	20,000	9,150	4,575	3,000	35,750	..
532	Fulbaria Loan Office, Ltd.	50,000	8,000	4,000	4,000	44,647	..
533	Pukharia Loan Co., Ltd.	50,000	10,910	5,455	5,141	73,772	..
534	Gaibandha Jotedar Bank, Ltd.	1,00,000	8,275	8,275	1,500	68,427	..
535	Golabari Patadaha Loan Co., Ltd.	50,000	5,850	2,925	2,600	38,866	..
536	Gopalpur Loan Co., Ltd.	50,000	15,020	7,510	6,500	65,555	..
537	Vikrampur Banking and Loan Co., Ltd.	1,00,000	22,075	8,919	..	3,514	..
538	Jamalpur Trading Bank, Ltd.	1,00,000	11,630	5,815	2,400	29,210	..
539	Bariapur Bank, Ltd.	50,000	..	..	..	..	..
540	Lalmanirhat Loan Office, Ltd.	50,000	22,650	8,675	..	..	..
541	Chittagong Loan Co., Ltd.	5,00,000	1,00,000	29,600	5,000	90,884	..
542	Bakshiganj Commercial Bank, Ltd.	1,00,000	12,170	6,325	1,000	30,452	..
543	Kalitala Loan Co., Ltd.	50,000	37,900	18,950	4,000	8,042	..
544	Ambaria Loan Office, Ltd.	50,000	50,000	5,000	6,500	49,090	..
545	Joyganj Loan Office, Ltd.	50,000	11,700	5,850	7,000	31,653	..
546	Pahlowanabad Loan Office, Ltd.	50,000	4,390	2,195	1,200	12,624	..
547	Bangalakshmi Banking and Trading Co., Ltd.	25,000	8,890	4,445	6,260	47,752	..
548	Bogra Rayat Bank, Ltd.	50,000	16,990	2,655	..	5,110	..
549	Durmut Loan and Commerce, Ltd.	50,000	6,410	3,205	1,500	18,181	..
550	Naogaon Equitable Bank, Ltd.	50,000	11,600	1,095	..	1,675	..
551	Sribaradi Loan Office, Ltd.	50,000	5,340	2,670	300	14,825	..
552	Kamala Bank, Ltd.	50,000	14,300	7,150	4,000	44,087	..
553	Gaibandha Vaishya Saha Bank, Ltd.	20,000	2,193	1,954	..	30	..
554	Kurigram Kshatriya Loan Co., Ltd.	30,000	19,430	5,829	277	33,037	..
555	Biswanathpur Loan Office, Ltd.	1,00,000	46,540	13,535	800	30,270	..
556	Bahadurabad Loan and Commerce, Ltd.	50,000	6,280	3,140	4,000	37,025	..
557	East Bengal Mercantile Bank, Ltd.	5,00,000	27,690	13,845	..	15,055	..

*Private.

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		2	3	4	5	6	7
	BENGAL—*contd.*						
	(*ii*) LOAN—*contd.*	Rs.	Rs.	Rs.	Rs.	Rs.	
558	Sherpur Bank, Ltd.. . . .	50,000	40,000	7,640	1,000	25,714	..
559	Gopalganj Chandrakona Loan Office, Ltd.	20,000	7,300	3,650	4,250	46,478	..
560	Hatbari Chaparkona Loan Office, Ltd.	50,000	14,630	7,315	4,500	33,694	..
561	Lohagara Commercial Bank, Ltd. .	1,00,000	28,080	26,740	643	22,223	..
562	Bansi Loan Office, Ltd. . . .	50,000	..	..	..	..	..
563	Narundi Loan Co., Ltd. . . .	50,000	11,790	5,895	4,500	50,793	..
564	Kendua Mohanganj Loan Office, Ltd.	50,000	13,700	6,610	..	2,673	..
565	Goshainbari Tajmahal Bank, Ltd. .	50,000	11,240	2,735	524	15,320	..
566	Tangail Bank, Ltd. . . .	50,000	.	..	..	..	..
567	Natore Kamala Bank, Ltd. . .	50,000	20,000	12,000	3,603	1,49,580	..
568	Champapur Bank, Ltd. . . .	50,000	30,000	6,000	750	30,136	..
569	Kakina Loan Office, Ltd. . .	1,00,000	25,000	4,832	..	3,967	..
570	Sirajgunj Agricultural and Industrial Bank, Ltd.	50,000	16,500	2,640	..	28,537	..
571	Kutubpur Commercial Bank, Ltd. .	1,00,000	59,300	14,790	600	22,811	..
572	Bagbari Loan Co., Ltd. . . .	50,000	31,970	13,978	636	3,683	..
573	Calcutta Loan Office, Ltd. . .	1,00,000	6,700	2,305	..	1,054	..
574	Megna Loan Office, Ltd. . . .	20,000	..	..	..	..	..
575	Sarail Loan Co., Ltd. . . .	30,000	8,700	3,330	..	1,278	..
576	Raikali Loan Office, Ltd. . .	1,00,000	71,000	10,450	2,364	55,595	..
577	Brahmanpara Loan Co., Ltd. . .	1,00,000	11,530	5,765	1,750	27,973	..
578	Narundi Banking and Trading Co., Ltd.	1,00,000	13,860	6,930	2,750	42,165	..
579	Narchi Loan Co., Ltd. . . .	50,000	26,300	2,520	..	12,041	..
580	Adarsa Bank, Ltd.	1,00,000	50,000	9,335	..	4,741	..

581	Akhaura Industrial Bank, Ltd.	1,50,000	..	..	..	..	..
582	West Bogra Bank, Ltd.	1,00,000	40,000	6,000	315	20,044	..
583	Basipur Commercial Bank, Ltd.	50,000	36,850	6,977	1,400	48,02	..
584	Shyampur Nayanagar Loan Office, Ltd.	50,000	5,170	2,585	1,800	18,792	..
585	Narchi United Bank, Ltd.	1,00,000	46,000	6,250	..	10,394	..
586	Gopalganj Loan Co., Ltd.	20,000	10,000	7,940	323	2,104	..
587	Jamalpur Commercial Bank, Ltd.	50,000	9,320	4,660	2,000	30,977	..
588	Prodyatnagor Loan Co., Ltd.	50,000	7,540	3,770	..	50,458	..
589	Jamalpur Bank, Ltd.	1,00,000	10,000	5,000	7,000	1,24,488	..
590	Kurigram Islamia Bank, Ltd.	20,000	..	..	..	..	..
591	Joy Lakshmee Bank, Ltd.	2,00,000	27,925	11,238	..	15,206	..
592	Jamalpur Popular Loan Co., Ltd.	50,000	7,500	3,750	6,000	62,870	..
593	Sontia Loan Office, Ltd.	50,000	8,910	4,455	..	54,210	..
594	Deshabandhu Memorial Bank of India, Ltd.	1,50,000	..	..	..	..	..
595	Jumarbari Bank, Ltd.	1,00,000	51,850	12,152	479	22,517	..
596	Kalabadha Loan Office, Ltd.	50,000	6,260	3,130	1,500	20,096	..
597	Islampur Loan Office, Ltd.	50,000	7,710	3,855	..	30,446	..
598	Muktagacha Loan Office, Ltd.	1,00,000	..	..	..	..	..
599	Dubalhati Rajrajeswari Bank, Ltd.	1,00,000	81,000	16,200	2,650	21,430	..
600	Assam Bengal Industrial Bank, Ltd.	10,00,000	1,11,075	19,477	2,051	1,15,722	..
601	Nayanagar Loan Office, Ltd.	50,000	6,100	3,050	..	9,623	..
602	Guneritala Loan Co., Ltd.	50,000	8,040	4,020	2,100	23,595	..
603	Teghoria Loan Co., Ltd.	50,000	9,950	4,975	2,500	24,335	..
604	Malamganj Loan Co., Ltd.	50,000	7,940	3,970	2,000	27,345	..
605	Chandaikona Loan Office, Ltd.	1,00,000	..	..	..	..	..
606	Bansi Bangali Bank, Ltd.	50,000	11,990	5,995	2,514	40,985	..
607	Jamalpur Central Loan Co., Ltd.	50,000	10,050	5,025	4,053	55,009	..
608	Buddhist Trading and Banking Association, Ltd.	1,00,000	7,450	3,725	50	2,314	..
609	Nanduia Loan and Trading Bank, Ltd.	50,000	..	..	..	..	..
610	Dighpait Officers' Union Bank, Ltd.	50,000	6,950	3,475	..	31,319	..
611	Dewanganj Oriental Bank, Ltd.	50,000	6,790	3,395	..	13,755	
612	Industrial Bank, Ltd., Baksiganj	50,000	..	..	..	..	..
613	Union Trading and Banking Co., Ltd.	50,000	..	..	..	..	..
614	Radhakantapur Loan Office, Ltd.	1,00,000	17,010	2,041	..	1,274	..
615	Itakumari Loan Office, Ltd.	30,000	22,000	6,510	414	32,630	..
616	Puthimari Bank, Ltd.	50,000	5,870	2,935	750	11,339	..
617	Barujibi Union Bank, Ltd.	20,000	..	..	..	..	..

Serial No.	Name of Company.	Authorised capital.	Subscribed capital.	Paid up capital.	Reserve fund.	Deposits.	Rate of dividend paid during the last year for which information is available.
	1	2	3	4	5	6	7
	BENGAL—*contd.*	Rs.	Rs.	Rs.	Rs	Rs.	
	(*ii*) LOAN—*contd.*						
618	Melandah Union Bank, Ltd.	1,00,000	5,540	2,770	2,000	23,270	..
619	Kulkandi Banking and Trading Co., Ltd.	20,000	3,940	1,970	1,000	10,643	..
620	New Shariakandi Bank, Ltd.	1,00,000	64,800	6,480	750	9,853	..
621	Beltail Loan Office, Ltd.	50,000	7,290	1,822	..	14,820	..
622	Hatiya Loan Office, Ltd.	50,000	7,750	3,875	2,000	30,146	..
623	Kamalpur Popular Bank, Ltd.	,00,000	71,220	13,774	1,700	8,572	..
624	Kusumbi Krishi and Banking Samiti, Ltd.	50,000	25,000	4,975	400	17,971	..
625	Jalalpur Loan Co., Ltd.	50,000	7,720	3,860	1,200	8,925	..
626	Tangail Union Bank, Ltd.	1,00,000	..	..	..	..	..
627	Bengal United Bank, Ltd.	1,00,000	18,540	9,270	4,000	2,49,840	..
628	Bhelamari Loan Office, Ltd.	50,000	9,920	4,960	2,500	27,500	..
629	Lasmanpur Gupinath Bank, Ltd.	50,000	..	..	..	..	..
630	Mogalhat Loan Office, Ltd.	1,00,000	19,225	7,255	300	3,570	..
631	Sherpur Model Bank and Loan Office, Ltd.	50,000	6,520	3,260	500	38,679	..
632	Chandpur Model Bank, Ltd.	1,00,000	36,500	18,134	..	24,330	..
633	Jessore Moslem Bank, Ltd.	1,00,000	5,710	5,710	..	..	..
634	Mukshudpur Loan Office, Ltd.	50,000	7,530	1,882	2,000	16,561	..
635	Dharmakura Commercial Bank, Ltd.	50,000	..	..	..	..	..
636	New Mahiganj Bank, Ltd.	50,000	15,000	11,880	744	57,508	..
637	Purbadhala Loan Office, Ltd.	30,000	12,250	6,125	..	16,226	..
638	Shariakandi Bank, Ltd.	50,000	30,000	5,431	100	8,897	..
639	Tushbhandar Loan Office, Ltd.	1,00,000	20,000	7,980	202	16,890	..
640	Shibganj Bank, Ltd.	1,00,000	40,000	4,548	..	5,332	..

641	Kalihati Loan Co., Ltd.	50,000	8,970	4,485	..	15,145	..
642	Narayan Bank, Ltd.	20,000	8,000	1,600	..	37,223	..
643	Bengal Luxmi Bank, Ltd.	1,00,000	..	..	..	..	..
644	Rangpur Bandhab Bank, Ltd.	50,000	..	..	..	..	..
645	Chunta Loan Co., Ltd.	50,000	..	..	..	..	..
646	Narayankhola Popular Bank, Ltd.	50,000	6,370	3,185	750	27,957	..
647	Jamalpur Mahajan Bank, Ltd	50,000	8,740	2,185	1,009	16,207	..
648	Bengal Mercantile Bank, and Trading Co., Ltd.	50,000	5,850	1,850	..	..	..
649	Biara Banking and Trading Co., Ltd.	1,00,000	..	..	..	..	..
650	Bakshiganj Oriental Bank, Ltd.	50,000	6,490	1,947	1,000	24,651	..
651	Palashbari Bank, Ltd.	1,00,000	22,700	4,430	..	11,919	..
652	Feni Loan Office, Ltd.	1,00,000	..	..	..	..	..
653	Haluaghat Loan Office, Ltd.	20,000	3,300	1,650	500	6,560	..
654	Kashimpur Chhatingram Bank, Ltd.	50,000	..	..	..	..	..
655	Mahadevpur Kamala Bank, Ltd.	50,000	29,000	5,800	485	21,639	..
656	Thury Loan Office, Ltd.	20,000	3,100	1,550	..	9,913	..
657	Mahiramkole Union Loan Office, Ltd.	50,000	3,900	1,170	..	11,880	..
658	stern Bengal National and Railway Union Trading Bank, Ltd.	3,00,000	..	..	..	..	..
659	Siliguri Kamala Bank, Ltd.	50,000	11,175	1,887	..	290	..
660	Bajitpur Union Loan Co., Ltd.	20,000	3,375	1,750	..	200	..
661	Baishrashi Adarsha Bank, Ltd.	20,000	..	..	..	..	..
662	Dholbhanga Banking and Trading Corporation, Ltd.	10,000	..	..	..	..	..
663	Kamdebbari Loan Office, Ltd.	50,000	2,600	1,300	..	7,649	..
664	Tulsighat Trading and Banking Co., Ltd.	1,00,000	..	..	..	..	..
665	Gopalganj Industrial Bank, Ltd.	50,000	9,925	5,100	..	23,961	..
666	Kishorganj Lakshmi Bank, Ltd.	50,000	25,000	25,000	196	49,654	..
667	Sukh Nagari Loan Office, Ltd.	50,000	..	..	..	..	..
668	Bhatiani Loan and Trading Co., Ltd.	50,000	8,300	8,000	..	21,680	..
669	Chaumuhani Commercial Bank, Ltd.	1,00,000	34,175	16,612	..	12,525	..
670	Jamalpur Industrial Bank, Ltd.	50,000	6,250	3,125	..	24,168	..
671	Khalli Dhankora Loan and Trading Co., Ltd.	1,00,000	..	..	..	..	..
672	Bogra Praja Bandhu Bank, Ltd.	1,00,000	48,950	8,807	..	19,744	..
673	Islampur Bank, Ltd.	1,00,000	5,510	2,755	..	33,262	..
674	Noakhali Baisya Barujibi Bank, Ltd.	1,00,000	..	..	..	..	..
675	Mathurapara Loan Co., Ltd.	1,00,000	..	..	..	..	..
676	Khaduli Bank, Ltd.	20,000	11,400	4,530	250	10,494	..

Serial No.	Name of Company.	Authorised capital.	Subscribed. capital.	Paid up capital.	Reserve fund.	Deposits.	Rate of dividend paid during the last year for which information is available.
		2	3	4	5	6	7
	BENGAL—*contd.*						
	(*ii*) LOAN—*contd.*	Rs.	Rs.	Rs.	Rs.	Rs.	
677	Hatgacha Mahajan Bank, Ltd.	1,00,000	20,000	3,284	..	371	..
678	Pirganj Loan Office, Ltd.	20,000	..	..	..	..	..
679	Bhratri Milan Banking and Trading, Co. Ltd.	1,00,000	..	..	..	..	..
680	Sherpur Banking and Trading Concern. Ltd.	50,000	..	..	..	..	..
681	Sadhapur Bank, Ltd.	1,00,000	..	..	..	..	..
682	Shaldha Bank, Ltd.	50,000	..	..	..	..	..
683	Alamnagar Union Loan Office, Ltd.	50,000	19,250	3,850	35	28,159	..
684	Magura Bank, Ltd.	1,00,000	..	..	..	..	..
685	Rishra Konnagar Loan Co., Ltd.	50,000	..	..	..	..	..
686	Gopalpur Bank, Ltd.	50,000	6,810	3,405	..	29,069	..
687	Nagda Simla Loan Office, Ltd.	20,000	9,300	4,650	..	25,524	..
688	Shyampur Loan Co., Ltd.	50,000	3,450	1,725	..	13,710	..
689	Nandanpur Loan Co., Ltd.	50,000	7,990	3,995	..	31,310	..
690	Birtara Loan Office, Ltd.	50,000	11,550	5,775	..	31,404	..
691	Varnakhali Loan Co., Ltd.	50,000	..	..	..	..	..
692	Central Loan Co., Ltd.	50,000	..	..	..	..	..
693	Rowhadaha Loan Office, Ltd.	1,00,000	19,660	3,892	..	14,700	..
694	Gaibandha Lakshmi Loan Corporation, Ltd.	50,000	3,000	2,738	..	..	..
695	Ramrampur Debendraganj Loan Office, Ltd.	50,000	3,650	1,825	..	9,664	..
696	Guthail Trading Bank, Ltd.	50,000	..	..	..	..	..
697	Munshipara Loan Office, Ltd.	50,000	..	..	..	..	..

698	Shambhuganj Loan Office, Ltd.	20,000	9,920	4,960	..	13,015	..
699	Malamganj Bank, Ltd.	50,000	4,720	2,360	..	18,682	..
700	Jhawgara Loan Office, Ltd.	50,000	4,980	2,490	..	..	..
701	Dacca Oriental Loan and Trading Co., Ltd.*	10,000	..	..	..	..	..
702	Pinderhati Bank, Ltd.	1,00,000	..	..	..	..	..
703	Jumarbari Banking and Trading Co., Ltd.	50,000	14,550	4,918	..	1,955	..
704	Gilabari Great Trading Society, Ltd.	50,000	..	..	..	..	..
705	Kastasinga Bank, Ltd.	30,000	..	..	..	..	..
706	Mamudpur Bank and Loan Office, Ltd.	50,000	..	..	..	..	..
707	Bhabatara Loan Office. Ltd.	20,000	..	..	..	..	..
708	UttarBanga Rajbangshi Bank, Ltd.	50,000	..	..	..	..	..
709	Mujata Loan Office, Ltd.	50,000	..	..	..	..	..
710	Krishna Bank, Ltd.	50,000	..	..	..	..	..
711	Langarpara Loan Office, Ltd.	50,000	..	..	..	..	..
712	Gunertala Bank, Ltd.	50,000	..	..	..	..	..
713	Dewanganj Merchants Bank, Ltd.	50,000	7,500	3,750	..	26,442	..
714	Manki Loan Office, Ltd.	50,000	6,330	3,165	..	36,472	..
715	Porjona Trading and Banking Co., Ltd	50,000	..	..	..	..	..
716	Durmut Crescent Bank, Ltd.	50,000	..	..	..	..	..
717	Bharnakhali Union Loan Co., Ltd.	50,000	3,000	1,500	..	690	..
718	Isamara Godakhali Union Bank, Ltd.	1,00,000	..	..	..	..	..
719	Hatsherpur Jotedars Bank, Ltd.	50,000	2,400	2,265	..	10,003	..
720	Thury Union Bank, Ltd.	50,000	2,350	1,175	..	8,656	..
721	Banking and Motor Co., Ltd.	50,000	7,000	3,500	..	15,560	..
722	Dagi Loan and Trading Co., Ltd.	1,00,000	..	..	..	..	..
723	Chargolabari Mahajan Bank, Ltd.	50,000	..	..	..	..	..
724	Mymensingh Lakshmi Narain Loan Office, Ltd.	1,00,000	..	..	..	..	..
725	Birampur Bank, Ltd.	1,00,000	46,000	13,680	..	23,674	..
726	Durgabari Loan and Bank, Ltd.	50,000	4,100	1,025	..	27,284	..
727	Gurudaspur Loan Co., Ltd.	1,00,000	..	..	..	..	..
728	Baritali Loan Co., Ltd.	1,00,000	12,110	1,840	..	..	
729	Hazipur Loan Office, Ltd.	20,000	2,900	1,450	..	9,643	..
730	Belna Union Loan Co., Ltd.	50,000	4,270	2,135	..	8,487	..
731	Bhairab Loan Co., Ltd.	1,00,000	..	..	..	..	..

*Private.

Serial No.	Name of Company.	Authorised capital.	Subscribed capital.	Paid up capital.	Reserve fund.	Deposits.	Rate of dividend paid during the last year for which information is available.
	1	2	3	4	5	6	7
	BENGAL—*contd.*	Rs.	Rs.	Rs.	Rs.	Rs.	
	(ii) LOAN—*contd.*						
732	Tangail Popular Bank, Ltd.	50,000	..	..	..	..	..
733	Barhatta Bank, Ltd.	50,000	..	..	..	..	..
734	Gaibandha United Bank, Ltd.	50,000	10,000	1,932	900	56,172	..
735	Kundabari Reserve Bank, Ltd.	50,000	..	..	..	..	..
736	Raiganj Loan Office, Ltd.	20,000	..	..	..	..	..
737	Bishunath Loan Co., Ltd.	50,000	3,870	1,847	..	8,507	..
738	Bhebla Loan Office, Ltd.	20,000	5,000	2,500	..	16,360	..
739	Brilahiribari Trading and Banking Co., Ltd.	20,000	..	..	..	..	..
740	Domar Loan Office, Ltd.	20,000	..	..	..	..	..
741	Feni Rajlakshmi Bank, Ltd.	1,00,000	..	..	..	..	..
742	Sonit Bhoom Simpathy Bank, Ltd.	1,00,000	..	..	..	..	..
743	Phulpur Bank, Ltd.	50,000	6,400	3,200	..	15,316	..
744	Hazipur Bazar Loan Co., Ltd.	30,000	..	..	..	..	..
745	Malirchar Harihar Loan Office, Ltd.	50,000	..	..	..	..	..
746	Bongaon Bank and Agriculture, Ltd.	1,00,000	16,900	8,450	..	..	..
747	Kamakhpyabari Loan Co., Ltd.	50,000	7,540	3,770	..	24,989	..
748	Dowail Bank and Loan Co., Ltd.	50,000	4,150	2,075	..	22,504	..
749	Barapangashi Mohanpur United Bank, Ltd.	50,000	..	..	..	..	..
750	Lahiri Mohanpur Union Bank, Ltd.	1,00,000	..			..	..
751	Nohalia Loan Office, Ltd.*	30,000	..	..	..	..	..
752	Kaliganj Loan Office, Ltd.	1,00,000	..	..	..	..	..
753	Mahajan Loan and Banking Co., Ltd.	1,00,000	..	..	..	..	..
754	Fulkocha Popular Loan Co., Ltd.	20,000	..	..	..	..	..

755	Dhalla Loan Office, Ltd.	50,000	..	..	..	..	..
756	Rajganj Commercial Bank, Ltd.	1,00,000	..	..	..	..	..
757	Chandrakona Lakshmi Narayan Bank and Loan Office, Ltd.	50,000	9,770	2,442	..	13,729	..
758	Netrakona Pallimangal Loan Office, Ltd.	1,00,000	..	..	..	..	..
759	Maheshpur Kalirbazar Loan Office, Ltd.	50,000	..	..	..	..	..
760	Pathershi Loan Co., Ltd.	20,000	..	..	..	..	..
761	Bogra Marwari Bank, Ltd.	10,00,000	2,18,500	37,975	..	9,936	..
762	Friends Loan Co., Ltd.	20,000	..	..	..	..	..
763	Netrakona Model Bank, Ltd.	1,00,000	..	..	..	..	..
764	Dilpashar Industrial Bank, Ltd.	50,000	..	..	..	..	..
765	Fulbaria Bank and Industry, Ltd.	30,000	..	..	..	..	..
766	Baniabazar Bank, Ltd.	50,000	..	..	..	..	..
767	Rangpur Federal Bank, Ltd.	2,00,000	..	..	..	..	..
768	Bhuapur Loan Office, Ltd.	20,000	..	..	..	..	..
769	Singrail Union Bank, Ltd.	50,000	10,200	3,220	..	14,148	..
770	Bogra Town Bank, Ltd.	1,00,000	..	..	..	..	..
771	Jamalpur Urban Bank, Ltd.	50,000	..	..	..	..	..
772	Sonatala Bank, Ltd.	1,00,000	38,900	6,910	..	14,386	..
773	Shahzadpur Loan Bank, Ltd.	50,000	..	..	..	..	..
774	Gopalganj Local Bank, Ltd.	20,000	10,000	3,690	..	1,038	..
775	Astadhar Loan Office, Ltd.	50,000	..	..	..	..	..
776	Puthia Loan Office, Ltd.	25,000	..	..	..	..	..
777	Deurparchandra Rashidpur Loan Office, Ltd.	25,000	..	..	..	..	..
778	Tajmahal Loan Co., Ltd.	50,000	..	..	..	..	..
779	Serajganj Commercial Bank, Ltd.	1,00,000	..	..	..	..	..
780	Chanchaitara Loan Office, Ltd.	1,00,000	..	..	..	..	..
781	Parbatipur Bank, Ltd.	30,000	9,850	4,925	..	24,634	..
782	Sherpur Urban Bank, Ltd.	1,00,000	..	..	..	..	..
783	Chittagong Commercial Bank, Ltd.	1,00,000	..	..	..	..	..
784	Jamalpur Lakshmi Bank, Ltd.	50,000	..	..	..	..	..
785	Kharma Popular Bank, Ltd.	50,000	..	..	..	..	..
786	Baghadoba Loan Co., Ltd.	1,00,000	..	..	..	..	..
787	Gaibandha Popular Bank, Ltd.	50,000	..	..	..	..	..
788	Khorda Balail Public Bank, Ltd.	1,00,000	..	..	..	..	..
789	Singhajani Jubilee Bank, Ltd.	30,000	..	..	..	..	..

*Private.

Serial No.	Name of Company.	Authorised capital.	Subscribed capital.	Paid up capital.	Reserve fund.	Deposits.	Rate of dividend paid during the last year for whic information is available.
	1	2	3	4	5	6	7
	BENGAL—*contd.*	Rs.	Rs.	Rs.	Rs.	Rs.	
	(ii) LOAN—*contd.*						
790	Jamalpur City Bank, Ltd.	20,000	..	..	..	..	..
791	Binapani Loan Office, Ltd.	50,000	..	..	..	..	..
792	Chandra Loan Office, Ltd.	20,000	..	..	..	..	..
793	Malamganj Union Bank, Ltd.	20,000	..	..	..	..	..
794	Jalalpur Bank, Ltd.	50,000	..	..	..		..
795	Mohanganj Bazar Loan Office, Ltd.	50,000	..	..	..	..	.
796	Notrakona Fulahar Loan Office, Ltd.	1,00,000	..	..	..	..	..
797	Sree Durga Loan Co., Ltd.	50,000	..	..	..	..	..
798	Merchants Bank of Chittagong, Ltd.	,00,000	..	..	..	..	..
799	Purba-dhala Bank, Ltd.	1,00,000	..	..	..	..	..
800	Baluahat Loan Office, Ltd.	50,000	..	..	..	..	..
801	Musharpara Tekani Banking and Trading Co., Ltd.	1,00,000	..	..	..	..	..
802	Parbatipur Loan Office, Ltd.	50,000	..	..	..	..	..
803	Sandwip Popular Bank, Ltd.	50,000	..	..	..	..	..
804	Kishorganj Union Bank, Ltd.	1,00,000	..	..	..	..	..
805	Baksiganj Kamala Bank, Ltd.	50,000	..	..	..	..	..
806	Baltia Loan Office, Ltd.	50,000	..	..	..	..	..
807	Mahadevpur Bank, Ltd.	1,00,000	..	..	..	..	..
808	Astadhar Kalibari Bank, Ltd.	1,00,000	..	..	..	..	..
809	Telipara Loan Office, Ltd.	50,000	..	..	..	..	..
810	Sonakata Bank, Ltd.	50,000	..	..	..	..	..
811	Beltail Union Bank, Ltd.	50,000	..	..	..	..	..
812	Sahabajpur Loan Co., Ltd.	20,000	..	..	..	..	..

813	Shyamganj Mahajan Bank, Ltd.	50,000	..	..	..	..	..
814	Sabilapur Bank, Ltd.	50,000	..	..	..	..	..
815	Kalabadha Mahajan Bank, Ltd.	25,000	..	..	..	..	..
816	Serajgunge City Bank, Ltd.	50,000	..	..	..	..	..
817	Dewanganj Union Bank, Ltd.	1,00,000	..	..	..	..	..
818	Gobindganj Loan Office, Ltd.	50,000	..	..	..	..	..
819	Lasmanpur Gour Nitai Bank, Ltd.	20,000	..	..	..	..	..
820	Raipura Loan Co., Ltd.	1,50,000	..	..	..	..	..
821	East Bengal Loan Office, Ltd.	20,000	..	..	..	..	..
822	Sidhuly Loan Office, Ltd.	20,000	..	..	..	..	..
823	Muktagacha Bank, Ltd.	50,000	..	..	..	..	..
824	Boyra Loan Office, Ltd.	20,000	..	..	..	..	..
825	Ashuganj Sobhania Commercial Bank, Ltd.	1,00,000	..	..	..	..	..
826	Mohanganj Jotedar Loan Co., Ltd.	50,000	..	..	..	..	..
827	Bhadai Bank and Loan Co., Ltd.	50,000	..	..	..	..	..
828	Nandina Popular Loan Co., Ltd.	50,000	..	..	..	..	..
829	Savings and Industry Ltd.	1,00,000	..	..	..	..	..
830	Lasmanpur Kamala Bank, Ltd.	50,000	..	..	..	..	..
831	Pirganj Bhubanmoyee Loan Co., Ltd.	50,000	..	..	..	..	..
832	Bogra Peoples Bank, Ltd.	50,000	..	..	..	..	..
833	Kurigram Town Bank, Ltd.	20,000	..	..	..	..	..
834	Dhaksewari Loan Office, Ltd.	1,00,000	..	..	..	..	..
835	Kagmari Loan Office, Ltd.	20,000	..	..	..	..	..
836	Bardhankuti Loan Co., Ltd.	1,00,000	..	..	..	..	..
837	Kaidola Mahakali Loan Office, Ltd.	20,000	..	..	..	..	..
838	Sarulia Loan Co., Ltd.	20,000	..	..	..	..	..
839	Beena Bank, Ltd.	1,00,000	..	..	..	..	..
840	Madhupur Loan Office, Ltd.	50,000	..	..	..	..	..
841	Kajla Loan Office, Ltd.	1,00,000	..	..	..	..	..
842	Isvarganj Krishi Bank, Ltd.	50,000	..	..	..	..	..
843	Behar Bank, Ltd.	1,00,000	..	..	..	..	..
844	Jhawail Bank, Ltd.	20,000	..	..	..	..	..
845	Madupur Bank, Ltd.	20,000	..	..	..	..	..
846	Lakshmipur Bank, Ltd.	80,000	..	..	..	..	..
847	Bhabaniganj Loan Office, Ltd.	50,000	..	..	..	..	..
848	Nandanpur Bank, Ltd.	50,000	..	..	..	..	..
849	The Manki Bank, Ltd.	50,000	..	..	..	..	..
850	Shampur Bazar Loan Office, Ltd.	1,00,000	..	..	..	..	..
851	India Equitable Loan Co., Ltd.	20.000	..	..	..	..	..
852	Brahman Bank, Ltd.	2,00,000	..	..	..	..	..

Serial No.	Name of Company.	Authorised capital.	Subscribed capital.	Paidup capital.	Reserve fund.	Deposits.	Rate of dividend paid during the last year for which information is available.
	1	2	3	4	5	6	7
	BENGAL—*concld.*	Rs.	Rs.	Rs.	Rs.	Rs.	
	(ii) LOAN—*concld.*						
853	Kishorganj Annapurna Bank, Ltd.	50,000	..	..	..	..	..
854	Sundarganj Loan Office, Ltd.	50,000	..	..	..	..	..
855	Northern Bank, Ltd.	1,00,000	..	..	..	..	..
856	Shaharpur Bank, Ltd.	50,000	..	..	..	..	..
857	New Rajbansi Kshatrya Samity, Ltd.	50,000	..	..	..	..	..
858	Behar Loan Office, Ltd.	1,00,000	..	..	..	..	..
859	Gazna Mahajani Bank, Ltd.	30,000	..	..	..	..	..
860	Gaibandha Town Bank, Ltd.	50,000	..	..	..	..	..
861	Naldanga Loan Office, Ltd.	50,000	..	..	..	..	..
862	Akkelpur United Bank, Ltd.	1,00,000	..	..	..	..	—
863	Wagers Loan Co., Ltd.	1,00,000	..	..	..	..	..
864	Bangiya Krishi Loan Co., Ltd.	1,00,000	..	..	..	..	..
865	Hamidpur Bank, Ltd.	50,000	..	..	..	..	..
866	Nandanpur Rayot Bank, Ltd.	50,000	..	..	..	..	..
867	Mal Banking and Trading Corporation, Ltd.	50,000	..	..	..	..	..
868	Talanda Banking & Trading Corporation, Ltd.	40,000	..	..	..	..	..
869	Hamlaikole Alia Krishi Dhana Bhandar, Ltd.	50,000	..	..	..	..	..
870	Joyrampur Loan Office, Ltd.	1,00,000	..	..	..	..	..
871	Radhamadhab Loan Co., Ltd.	1,00,000	..	..	..	..	..
872	Dacca Popular Loan Office, Ltd.	1,00,000	..	..	..	..	..
873	Crescent Banking & Trading Co., Ltd.	1,00,000	..	..	..	..	..

874	Karmakar Trading Bank, Ltd.	50,000	..	..	..	..	..	..
875	International Investment and Banking Corporation, Ltd.	20,000	..	..	..	..	..	..
876	Liberty Banking & Trading Co., Ltd.*	1,00,000	..	..	..	..	..	..
877	Bamna Commercial Bank., Ltd.	50,000	..	..	..	..	..	..
878	Navadwip Bank, Ltd.	50,000	..	..	..	..	..	..
879	Barapangashi Loan Office Ltd.	20,000	..	..	..	..	..	..
880	Adarsha Palli Sri, Ltd.	1,00,000	..	..	..	..	..	..
881	Nagarpur Bank, Ltd.	50,000	..	..	..	..	..	..
882	Bank of Commerce, Ltd.	10,00,000	..	..	..	..	..	..
883	Noakhali Union Bank, Ltd.	1,00,000	..	..	..	..	..	..
884	Chandaikona, Bank, Ltd.	1,00,000	..	..	..	..	..	..
885	Mymensingh Fulbari Loan Office, Ltd.	50,000	..	..	..	..	..	..
886	Jhawail Loan Office, Ltd.	50,000	..	..	..	..	..	..
887	Gaibandha Ideal Bank, Ltd.	50,000	..	..	..	..	..	..
888	Badechandi Sarbamangala Bank, Ltd.	50,000	..	..	..	..	..	..
889	Ramkrishnapur Loan Co., Ltd.	50,000	..	..	..	..	..	..
890	Hadira Bank, Ltd.	50,000	..	..	..	..	..	..
891	Senbari Loan Office, Ltd.	50,000	..	..	..	..	..	..
892	Kashiganj Model Bank, Ltd.	1,00,000	..	..	..	..	..	..
893	Gaibandha Deshabandhu Bank, Ltd.	50,000	..	..	..	..	..	..
894	Hazradi Bank, Ltd.	50,000	..	..	..	..	..	..
895	Narundi Commercial Bank, Ltd.	20,000	..	..	..	..	..	..
896	Diamond Bank, Ltd.	1,00,000	..	..	..	..	..	..
897	Prudential Bank (India), Ltd.	2,00,000	..	..	..	..	..	..
898	Ananda Bank, Ltd.	1,00,000	..	..	..	..	..	..
899	Boali Union Bank, Ltd.	50,000	..	..	..	..	..	..
900	Bonarpara Loan Office, Ltd.	50,000	..	..	..	..	..	..
901	Jana Sakti Bank, Ltd.	4,00,000	..	..	..	..	..	..
902	Shusung Loan Office, Ltd.	1,00,000	..	..	..	..	..	..
903	Ghoga Union Loan Co., Ltd.	50,000	..	..	..	..	..	..
904	Pioneer Loan Co. (Bengal), Ltd.	1,00,000	..	..	..	..	..	..
905	Jalla Milita Dhanabhandar, Ltd.	50,000	..	..	..	..	..	..
906	Ilsa Anandamoyee Bank, Ltd.	30,000	..	..	..	..	..	..
907	Mokamtala Loan Office, Ltd.	1,00,000	..	..	..	..	..	..
908	Annapurna Loan Office, Ltd.	20,000	..	..	..	..	..	..
909	Jhalopara Loan Co., Ltd.	2,00,000	..	..	..	..	..	..
910	Kasiani Loan & Trading Co., Ltd.	1,00,000	..	..	..	..	..	..
911	Dacca United Loan Co., Ltd.	1,00,000	..	..	..	..	..	..
912	Rajnagar Loan Co., Ltd.	1,00,000	..	..	..	..	..	..

*Private.

Serial No.	Name of Company.	Authorised capital.	Subscribed capital.	Paid-up capital.	Reserve fund.	Deposits.	Rate of dividend paid during the last year for which information is available.
	1	2	3	4	5	6	7
	BENGAL—*concld.*						
	(*ii*) LOAN—*concld.*	Rs.	Rs.	Rs.	Rs.	Rs.	
913	Naldanga United Bank, Ltd.	50,000	..	..	..	..	..
914	Barapangashi Islamia Samabaya, Ltd.	50,000	..	..	..	..	..
915	Salop Bank Trade Union Co., Ltd.	1,00,000	..	..	..	..	..
916	Malancha Loan Office, Ltd.	20,000	..	..	..	..	..
917	Bowra Loan Office, Ltd.	2,00,000	..	..	..	..	..
918	East Bengal Saraswat Bank, Ltd.	2,00,000	..	..	..	..	..
919	Ramganj Loan Co., Ltd.	1,00,000	..	..	..	..	..
	UNITED PROVINCES OF AGRA AND OUDH.						
1	Messrs. Bhagwan Das and Co., Ltd. (Bankers), Dehra Dun*	25,00,000	25,00,000	25,00,000	..	..	..
2	Superior Bank, Ltd., Muzaffarnagar	20,000	20,000	20,000	8,069	56,799	..
3	Brahm Trading Co., Ltd., Muzaffarnagar	1,00,000	78,525	78,525	51,000	1,42,617	per cent.
4	Muzaffarnagar Bank, Ltd., Muzaffarnagar	..	..	..	..	..	..
5	Beohar Bank, Ltd., Muzaffarnagar	1,00,000	19,650	19,650	*Nil*	12,832	..

6	Banking and Ornament Manufacturing Co., Ltd., Meerut* .	1,00,000	50,000	49,677	..	..	..
7	Beopar Sahaik Bank, Ltd., Meerut	2,00,000	2,00,000	2,00,000	1,35,000	13,00,010	10 per cent. with Rs. 2 per share as bonus.
8	Meerut Bank, Ltd., Meerut .	1,00,000	60,000	60,000	61	12,425	No dividend.
9	Indian Banking Co., Ltd., Meerut	50,000	50,000	50,000	24,500	1,72,474	10 per cent. and bonus at 1 per cent.
10	Hira Bullion Bank, Ltd., Meerut	..	..	..	..	..	..
11	Brija Loan Co., Ltd., Muttra .	50,000	18,728	12,736	..	6,197	..
12	Radhaswami General and Assurance Bank, Ltd., Agra.	20,00,000	4,00,000	1,20,000	*Nil*	5,47,706	No dividend.
13	Indian States Bank, Ltd., Agra	1,00,00,000	..	..	..	1,80,230	..
14	Sat Narain Bank, Ltd., Jalesar	1,00,000	64,400	64,400	18,419	1,41,157	9 per cent.
15	U. P. Trading Bank, Ltd., Chandausi* . . .	20,000	250	250	..	..	..
16	Gulzarimal Ramgopal (Bankers) Ltd., Chandausi* . .	1,00,000	..	..	..	..	..
17	Allahabad Trading and Banking Co., Ltd., Allahabad . .	20,000	20,000	20,000	50,000	2,40,461	12 per cent. and bonus 6 per cent.
18	Kushwaha Commercial Bank, Ltd., Allahabad . .	20,000	..	..	..	..	..
19	Benares Bank, Ltd., Benares .	1,00,00,000	20,00,000	11,25,000	5,00,000	89,44,087	9 per cent.
20	Mufassil Bank, Ltd., Gorakhpur	7,50,000	7,42,000	7,39,882	1,60,000	2,97,274	..
21	Aman-o-Aman Bank, Ltd., Gorakhpur* . . .	1,00,000	81,000	81,000	..	..	..
22	Banking and Trading Union, Ltd., Gorakhpur . .	2,00,000	2,000	2,000	..	..	..

* Private.

Serial No.	Name of Company.	Authorised capital.	Subscribed capital.	Paid-up capital.	Reserve fund.	Deposits.	Rate of dividend paid during the last year for which information is available
	1	2	3	4	5	6	7
	UNITED PROVINCES OF AGRA AND OUDH—*contd.*	Rs.	Rs.	Rs.	Rs.	Rs.	
23	Gorakhpur City Bank, Ltd., Gorakhpur* . . .	20,000	244	244	..	..	..
24	Bikaner Banking and Trading Co., Ltd.* . . .	1,00,000	28,600	26,622	..	..	..
25	Trading and Banking House, Ltd., Lucknow . . .	1,50,000	33,250	33,115	16,000	2,00,535	8 per cent.
26	Lucknow National Bank, Ltd., Lucknow*. . . .	1,00,000	6,540	6,490	..	..	..
27	Dinshaw and Co. (Bankers), Ltd., Lucknow*. . .	2,50,000	1,93,150	38,570	..	9,201	..
28	Unao Commercial Bank, Ltd., Unao	2,00,000	80,340	78,197	11,000	3,89,273	4½ per cent.
29	Naini Tal Bank., Ltd., Naini Tal	5,00,000	1,48,000	1,48,000	35,000	3,80,812	8 per cent.
30	Oudh Commercial Bank, Ltd., Fyzabad	5,00,000	5,00,000	5,00,000	1,00,000	3,26,718	6 per cent.
31	Ajodhia Bank, Ltd., Fyzabad	3,00,000	3,00,000	3,00,000	5,19,585	3,16,505	..
32	Co-operative Town Bank, Ltd., Sultanpur . . .	5,000	5,000	[5,000	7,216	1,035	0-12-0 per share.
33	Agra Bank, Ltd., Agra . .	10,00,000	36,105	[22,819	4,500	1,11,868	..

	PUNJAB.						
1	Ambala Commercial Bank, Ltd. Ambala	2,50,000	80,200	18,800	400	3,61,020	7¼ per cent.
2	Bijwara Bank, Ltd. .	50,000	20,000	5,000	600	39,585	8 per cent.
3	Bari Doab Bank, Ltd. . .	2,00,000	2,00,000	1,00,000	3,80,000	24,47,325	20 per cent.
4	Colony Bank, Ltd., Lyallpur .	2,00,000	1,44,100	57,640	47,500	4,83,606	11 per cent.
5	Commercial Bank, Ltd., Lahore*	20,000	10,100	1,520	..	..	..
6	Crescent Bank of India, Ltd., Lahore	25,00,000	36,600	9,805	..	1,14,542	..
7	Ghansham Das and Sons, Ltd., D. G. Khan* . . .	2,00,000	51,000	48,500	..	..	..
8	Himpur Bank, Ltd.* . .	2,00,000	62,500	38,403	..	..	..
9	Indian National Loan Co., Ltd., Ludhiana* . .	1,00,000	..	..	..	..	..
10	Mutual Bank of India Ltd., Lahore	1,00,000	..	..	..	..	..
11	Khalsa Bank, Ltd., Gujranwala	5,00,000	1,96,500	28,303	..	56,924	*Nil.*
12	Karnal Bank, Ltd., Karnal .	5,00,000	..	..	..	..	..
13	Lyallpur Bank, Ltd., Lyallpur.	5,00,000	5,00,000	1,89,449	2,00,000	10,37,160	*Nil.*
14	Mohammadan Bank, Ltd., Lahore	2,00,000	1,11,400	19,443	..	1,262	..
15	Mumtaz Bank, Ltd. . .	1,00,00,000	79,150	10,860	..	..	..
16	Muslim Bank of India, Ltd., Lahore	10,00,000	3,82,700	1,85,934	42,500	10,59,273	9 per cent.
17	Peoples Bank of Northern India, Ltd., Lahore . .	1,00,00,000	75,00,000	33,61,455	50,000	2,83,55,308	6 per cent.
18	Peoples Instalment and Savings Bank, Ltd. . . .	5,00,000	2,45,000	94,000	..	48,141	*Nil.*
19	Punjab Co-operative Bank, Ltd., Lahore . . .	25,00,000	8,05,500	7,78,753	3,40,000	82,44,918	9 per cent.
20	Punjab and Kashmir Bank, Ltd., Rawalpindi . .	20,00,000	7,80,700	3,73,160	57,031	17,03,409	..
21	Punjab National Bank, Ltd., Lahore	1,00,00,000	50,00,000	31,23,157	19,00,000	5,23,60,244	8 per cent.

*Private.

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	1	2	3	4	5	6	7
	PUNJAB—*contd.*	Rs.	Rs.	Rs.	Rs.	Rs.	
22	Punjab and Sindh Bank, Ltd., Amritsar	10,00,000	7,75,000	4,05,438	14,35,000	1,16,88,025	15 per cent.
23	Punjab Zamindara Bank, Ltd., Lyallpur	10,00,000	6,02,300	2,30,900	37,266	1,16,900	..
24	Punjab Loan Society, Ltd., Lahore*	20,000	..	..	..	..	..
25	Reliance Bank of India, Ltd., Lahore	1,00,000	..	..	..	..	..
26	Sahukara Bank, Ltd., Ludhiana	2,50,000	1,08,400	10,610	1,500	2,20,296	6 per cent.
27	Simla Banking and Industrial Co., Ltd.	50,00,000	7,09,700	5,11,950	..	11,11,754	7 per cent.
28	Sugar and Grain Merchants Banking Co., Ltd. . .	5,00,000	4,26,000	85,200	..	4,85,591	35 per cent.
29	Swadeshi Banking and Commercial Co., Ltd., Amritsar	50,000	5,090	1,256	..	..	..
	BURMA.						
1	Dawsons Bank, Ltd. . .	20,00,000	10,00,000	7,50,000	7,50,000	90,83,647	Preference shares 9 per cent. Ordinary shares 16 per cent.

2	The Chinese Merited Banking Co., Ltd.	1,00,000	1,00,000	1,00,000	*Nil*	1,54,629	*Nil.*
3	Balthazar and Son, Ltd. .	15,00,000	8,00,200	8,00,200	3,30,000	12,00,000	.
4	Bank of Upper Burma, Ltd. .	4,00,000	4,00,000	1,00,100	1,42,000	5,33,960	5 per cent.
	BIHAR AND ORISSA.						
1	Chota Nagpur Banking Association, Ltd., Hazaribagh .	1,00,000	58,270	58,270	5,52,997	39,30,723	20 per cent.
2	Puri Bank, Ltd., Puri . . .	50,000	28,000	28,000	42,564	3,66,581	9 per cent.
3	Bank of Behar, Ltd., Bankipore (Patna) . . .	10,00,000	6,56,500	3,25,679	1,26,000	35,62,393	7 per cent.
4	Hazaribagh Bank, Ltd., Hazaribagh . . .	50,000	21,830	20,651	5,005	2,440	..
5	Darbhanga Bank, Ltd., Darbhanga	10,00,000	2,03,100	2,03,100	61,842	7,464	..
6	Cuttack Bank, Ltd., Cuttack .	5,00,000	55,000	16,500	31,000	2,85,406	20 per cent.
7	Jagannath Bank, Ltd., Puri (a private company) . .	50,000	48,500	23,420	..	..	..
8	Kishanganj Bank, Ltd. (Purnea), Kishanganj. .	50,000	25,000	10,000	14,750	2,18,876	45 per cent.
9	Purnea Banking Corporation, Ltd., Purnea . . .	20,000	20,000	11,710	9,800	1,10,723	20 per cent.
10	Thakurganj Bank, Ltd., Thakurganj (Purnea) .	50,000	8,525	2,870	..	..	..
11	Katihar Loan Office, Ltd., Katihar (Purnea) . .	50,000	25,000	13,905	..	12,465	..
12	Deogarh Loan Office, Ltd., Deoghar (Santal Parganas).	20,000	2,670	2,520	..	398	..
13	Bank and Stores, Ltd., Purnea	50,000	6,220	2,488	1,718	43,925	..
14	Ahis Banking and Trading Co., Ltd., Supaul Bazar, P. O. Baraul, Darbhanga . .	50,000	10,100	8,940	..	..	..
15	The Orissa Bank, Ltd., Cuttack	5,00,000	..	..	..	..	..

* Private.

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	1	2	3	4	5	6	7
	BIHAR AND ORISSA—*contd.*	Rs.	Rs.	Rs.	Rs.	Rs.	
16	The Behar Zamindary and Commercial Bank, Ltd., Bankipur (Patna) . .	1,00,000	3,449	2,665	..	4,809	
17	The All-India Mutual Financing Corporation, Ltd. (a private Co.), Patna . .	40,000	1,780	890	..	..	..
18	The Behar Traders, Ltd., Gaya	10,00,000	73,200	17,403	1,669	71,296	..
	CENTRAL PROVINCES AND BERAR.						
1	Bhargav Commercial Bank, Jubbulpore	3,00,000	2,50,000	2,50,000	1,738	2,84,942	2 per cent.
2	Islamic Bank of India, Jubbulpore.	20,000	1,625	1,555	..	..	No dividend.
3	Bank of Berar, Ltd., Amraoti.	10,00,000	64,200	59,970	859	25,883	4 per cent.
	ASSAM.						
1	The Assam Bengal Loan Company, Ltd., Karimganj .	20,000	1,240	868	..		..

2	The Daksheen Srihatta Loan Company, Ltd., Maulvibazar	50,000	3,200	3,200	..	10,516	..
3	The Habiganj Union Bank, Ltd. Habiganj	50,000	7,556	7,306	..	3,744	..
4	The Habiganj Ideal Bank, Ltd., Habiganj	1,00,000	..	..	..	..	..
5	The Habiganj Mahajan Bank, Ltd., Habiganj . . .	1,00,000	..	..	..	..	..
6	The Karimganj Industrial Bank, Ltd., Karimganj . .	5,00,000	77,370	62,918	6,497	49,439	..
7	The Karimganj Banking and Trading Company, Ltd., Karimganj	1,00,000	2,650	1,380	..	2,378	..
8	The Panchakhanda Loan Co., Ltd., P. O. Beanibazar, Sylhet	20,000	1,410	1,117	..	..	..
9	The Sylhet Industrial Bank, Ltd., Sylhet	1,00,000	7,060	1,936	..	..	..
10	The Jamira Loan Co., Ltd., Goalpara	20,000	..	..	..	..	..
11	The Sylhet National Company, Ltd., Sylhet	1,00,000	17,470	17,470	..	2,194	..
12	The Banking and Trading Co., Ltd., Sylhet	50,000	21,300	21,300	4,695	20,524	..
13	The Habiganj Loan and Trading Co., Ltd., Habiganj .	20,000	13,000	13,000	5,892	12,358	..
14	The Sunamganj Radha-Krishn Loan Co., Ltd., Sunamganj	20,000	20,000	20,000	9,561	2,224	..
15	The Sunamganj Mahajan Samity, Ltd., Sunamganj .	20,000	12,450	12,450	15,776	221	..
16	The Surma Valley Insurance and Banking Corporation, Ltd., Sylhet	50,000	15,000	12,313	3,650	10,613	..
17	The Sylhet Loan, Co., Ltd., Sylhet	20,000	13,000	13,000	47,197	57,339	..
18	The Sylhet Popular Bank, Ltd., Sylhet	50,000	..	..	..	..	..
19	The Assam Industrial Bank, Ltd., Shillong	5,00,000	50,400	22,990	743	6,132	..
20	The Shillong Loan Co., Ltd., Shillong	20,000	8,100	1,976	100	400	..

Serial No.	Name of Company.	Authorised capital.	Subscribed capital.	Paid-up Capital.	Reserve fund.	Deposits.	Rate of dividend paid during the last year for which information is available.
	1	2	3	4	5	6	7
	ASSAM—*contd.*	Rs.	Rs.	Rs.	Rs.	Rs.	
21	The Shillong Banking and Trading Corporation, Ltd., Shillong	1,00,000	25,000	25,000	43,513	2,12,258	..
22	The Assam Banking Syndicate, Ltd., Shillong	20,000	1,400	1,200	..	..	..
23	The Friends' Union Bank, Ltd., Shillong	20,000	14,000	6,600	..	..	..
24	The Friends' Savings Fund, Ltd., Shillong	20,000	19,500	19,500	..	..	..
25	The Shillong Union Fund, Ltd., Shillong	20,000	15,000	5,000	..	..	..
26	The Standard Bank of Shillong, Ltd., Shillong . . .	20,000	9,000	4,500	..	..	..
27	The Shillong Popular Bank, Ltd., Shillong	30,000	..	..	..	..	..
28	The Model Bank of Shillong, Ltd., Shillong	20,000	9,875	4,938	..	..	..
29	The Mercantile Bank of Khasi and Jaintia Hills, Ltd., Shillong	20,000	3,400	1,307	..	..	..
30	The Cachar Marine Fire Life Insurance and Banking Co., Ltd., Silchar	1,00,000	37,920	37,920	6,800	49,982	..
31	The Cachar Loan Company, Ltd., Silchar.	30,000	5,920	3,552	770	5,233	..
32	The Dhubri Bank, Ltd., Dhubri	1,00,000	50,000	20,000	4,025	1,63,454	..

33	The Goalpara Loan Office, Ltd., Goalpara	1,00,000	75,000	37,500	6,156	68,898	..
34	The Gauripur Peoples' Bank, Ltd., P. O. Gauripur	1,00,000	50,000	25,000	6,135	67,029	..
35	The Lakshmee Bank, Ltd., Dhurbi	1,00,000	50,000	20,000	..	1,18,021	..
36	The Dhurbi Loan Office, Ltd., Dhubri	1,00,000	75,000	33,750	35,372	5,79,251	..
37	The Karaibari Loan Office, Ltd., P. O. Mankachar, Goalpara	50,000	5,300	2,350	..	..	..
38	The Dhubri Model Bank, Ltd., Dhubri	1,00,000	..	..	..	..	..
39	The Gauhati Bank, Ltd., Gauhati	1,00,000	27,600	5,370	149	22,973	..
40	The Gauhati Loan Office, Ltd., Gauhati	50,000	26,600	4,371	..	22,997	..
41	The Samabaya Dhana Bhandar, Ltd., P. O. Sarbhog	2,50,000	..	..	..	..	..
42	The Sapatgram Trading Bank, Ltd., P. O. Sapatgram	50,000	2,160	1,080	..	..	..
43	The Nowgong Bank, Ltd., Nowgong	1,00,000	37,710	17,365	..	..	..
44	The Tezpur Industrial Bank, Ltd., Tezpur	5,00,000	1,00,000	33,676	36,000	1,71,569	..
45	The Sibsagar Banking Corporation, Ltd., Sibsagar	1,00,000	14,400	1,290	..	..	..
46	The Mahendraganj Lakshmee Narayan Loan Office, Ltd., P. O. Mahendraganj, Garo Hills	50,000	..	..	..	..	..
47	The Nowgong Loan Office, Ltd., Nowgong	50,000	..	..	..	..	..
48	The Shillong Crescent Bank, Ltd., Shillong	20,000	..	..	..	..	..
49	The Assam Bengal Central Industrial Bank, Ltd., Silchar	5,00,000	..	..	..	..	..
50	The Luxmi Bank of Shillong, Ltd., Shillong	20,000	..	..	..	..	..
51	The Desnabandhu Pallisanskar Bank, Ltd., P. O. Baniyachong, Sylhet	5,00,000	..	..	..	..	..

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	1	2	3	4	5	6	7
		Rs.	Rs.	Rs.	Rs.	Rs.	
	CENTRAL AREAS.						
	N.-W. F. Province.						
1	The Frontier Bank, Ltd.	10,00,000	2,50,000	1,30,979	1,65,000	21,27,710	12 per cent.
	Delhi Province.						
1	Eastern Banking and Provident Insurance, Co., Ltd.*	1,00,000	..	..	..	..	..
2	The Ideal Bank, Ltd.	20,000	2,500	25,000	*Nil*	30,741	10 per cent.
3	The Bharat National Bank, Ltd.	10,00,000	9,27,850	2,83,606	..	..	..

*The bank is now converted from a private company into a public company with an authorised capital of Rs. one lac.

NOTE :—In Baluchistan and Coorg there are no registered banks.

APPENDIX III.

Recommendations of the Provincial Committees (*vide* para. 56 of Report).

APPENDIX III.

Recommendations of the Provincial Committees (*vide* para. 56 of Report).

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	RURAL FINANCE—GENERAL.	
	ASSAM.	
1	Extension of cultivation in the Assam Valley by immigrants from East Bengal should be controlled in the interests of the indigenous Assamese (para. 19).	This is a matter for the Provincial Government who are taking necessary action.
2	Government should prohibit mauzadars from taking bonds from cultivators for arrears of revenue (para. 53).	This is a matter for the Provincial Government who are examining the question. The recommendation is supported.
3	The cultivator should endeavour where possible to grow two crops instead of one, including cold weather crops (para. 116).	No remarks. The Provincial Government are taking steps to encourage the cultivator to grow more than one crop a year.
4	It is the task of the Agricultural Department to induce the cultivator to try improved seeds and to adopt new methods. This will be done largely by Agricultural Demonstrators, some of whom should exert themselves more and should also give previous notice of their visits to villages. But at the same time all efforts of the Agricultural Department will be useless unless the cultivator shows his willingness to carry into practice the instructions he receives (para. 116).	No remarks.
5	There should be a larger allotment for agriculture in the provincial budget. Government might by scholarships grant increased facilities to those who evince a genuine desire to study agriculture in colleges outside Assam (para. 120).	This is a matter for the Provincial Government to consider.
6	The Advisory Board of Development should continue to recommend measures for stimulating the growth of agriculture, cottage industries and the co-operative movement (para. 120).	This is a matter for the Provincial Government who are bringing it to the notice of the Advisory Board of Development.
7	Though grazing areas may be inadequate or of poor quality, the cultivator can do much by his own efforts to improve the condition of the cattle by reducing their numbers, by making more use of stall-feeding and by better breeding.	No remarks.

	Jungly grazing reserves might be leased out for cultivation for two or three years to have them cleared (para. 209).	
8	The Agricultural Department could demonstrate how fodder crops can be grown (para. 209).	No remarks.
9	It is, however, essential that there should be a general awakening of public interest in the economic conditions of the province and in banking—especially co-operative banks—and that this interest should be kept alive by some permanent organisation. It must, however, be an organisation for a practical purpose and not for its own sake. The organisation would have to deal with live problems affecting mainly the welfare of the agricultural community but not exclusively so, because, after all in India the prosperity of the commercial, industrial and even the professional classes depends on the prosperity of the masses—the toiling millions in the villages. The Committee have referred to the Advisory Board for Development which exists in Assam. They have suggested that this Board might serve as a permanent organisation, but its constitution might include a Marwari indigenous banker, a representative of the Imperial bank or one of the Indian joint-stock banks in Assam, and a practical cultivator, keen on agricultural experiments. The Board could take up questions such as the improvement of rural societies, the development of land mortgage banks, the spread of primary education, the resuscitation of cottage industries, the remedy for the system of paddy loans in Sunamganj, the further extension of the Agriculturists' Loans Act for the purchase of cattle, the formation of jute sale societies, and the establishment of local commercial banks. Practical problems there are in abundance; what is wanted is the co-operation of willing hands to try and solve them (para. 233).	We have recommended the establishment of a Board of Economic Enquiry in each province which may deal with these matters (para. 73).
10	The Assam Advisory Board for Development should act as a permanent organisation for maintaining an interest in economic conditions and banking (para. 233).	We have suggested the establishment of a Board of Economic Enquiry for the purpose (para. 73). If the existing Board can act for our proposed Board we have no objection. The Assam Government propose to examine the recommendation.
	BENGAL.	
11	Classification of credit requirements of agriculturists into short-term, intermediate and long-term should be according to the *period* rather than according to the *purpose* (para. 127).	This is dealt with in our report (para. 95).

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	RURAL FINANCE—GENERAL—*contd.*	
	BENGAL—*contd.*	
12	It is not possible to recommend more frequent revision of the settlement records (para. 163).	This is a matter for the Provincial Government.
13	Emergency currency should be issued to the extent of Rs. 6 crores when the bank rate rises to 6 per cent. and Rs. 6 crores more when the bank rate rises to 7 per cent. (para. 396).	This is dealt with in our report (paras. 584-587).
	BIHAR AND ORISSA.	
14	*Need for a Provincial Banking Council.*—Some of the recommendations obviously require elaboration in the light of technical knowledge and practical experience, and for their proper working require a permanent supervising organisation. The Committee recommend that this knowledge, experience and supervision should be supplied by a Provincial Banking Council, which should be a small body of experts qualified to plan lines of provincial banking development and to advise Government on various problems connected with it.	
15	*Its composition and functions.*—It might consist of ten members and include the Member of the Board of Revenue, the Registrar of Co-operative Societies, the Postmaster-General, the University Professor of Economics, a representative of the Imperial Bank, a representative of joint-stock banks, an indigenous banker and three representatives of the borrowing classes, one of whom should be a zemindar, another a merchant and the third an industrialist. The Council should be nominated by Government. The Council would arrange the co-ordination between the various agencies to which the Committee referred in Chapter XXII, supply directors to the Land Mortgage Bank proposed in Chapter XVI, and lay down the conditions of registration of mahajans described in Chapter XX.	We have recommended the establishment of a Board of Economic Enquiry in each province (para. 73). A separate Provincial Banking Council is not recommended.
16	*A further use of the Banking Council.*—The Committee hope the Council would also serve the purpose of a Board of Economic Studies which the Royal Agricultural Commission had in view and which has functioned with marked success in the Punjab. It would promote a study of special problems of provincial development by means of committees consisting of members and additional members co-opted by it. One of these committees should deal with	

	the banking problems of co-operation and serve as an advisory council for the Registrar of Co-operative Societies.	
17	*Divisional Banking Boards.*—The council might be assisted by divisional banking boards constructed on similar lines and working under the presidency of Commissioners. Each might consist of 7 members—the Commissioner, a representative of the co-operative movement, a registered mahajan or approved shroff, a joint-stock banker, a representative of the ryots, and a merchant. The divisional banking board should be nominated by the Banking Council on the recommendation of the Commissioner and should, along with other functions, perform the duties proposed for it in Chapter XX.	
	BOMBAY.	
18	*Rural Indebtedness.*—In all schemes of debt redemption, it is essential to make a very careful inquiry into the character of the borrower and his income and ability to repay, and fix the instalments in such a way as to enable him to make repayment out of his surplus income (para. 71).	This is dealt with in our report (paras. 219 & 220).
	BURMA.	
19	The most useful immediate measures for the improvement of agricultural finance are the improvement of agricultural technique and the improvement and extension of the co-operative system (para. 177).	These are dealt with in our report (para. 73).
20	These imply amongst other things the use of improved and uniform seed, improvements in the public health and education as well as the improved financial machinery proposed in Chapter XIX to give better access to the general credit supply (para. 177).	
21	Regulation of the circumstances of tenants is necessary as a preliminary to the improvement of their financial facilities (para. 178).	This is dealt with in our report (para. 73).
	CENTRAL AREAS.	
22	A Board of Economic Enquiry should be constituted on the lines of the Punjab Board of Economic Enquiry [para. 244 (2)].	This is dealt with in our report (para. 73).
23	A Board of Economic Development should be set up for these Areas which should include among its members [para. 244 (3)]—	This is a matter for the consideration of Government.
	(*a*) the administrative heads of the departments of agriculture, veterinary, industries and co-operation;	

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	RURAL FINANCE—GENERAL—*contd.*	
	CENTRAL AREAS—*contd.*	
	(*b*) a representative of factory owners; (*c*) a representative of zemindars nominated by the Local Government; (*d*) a representative of the Board of Economic Enquiry elected by the Board of Economic Enquiry; (*e*) a representative of Labour nominated by the Local Government; and (*f*) a whole-time economist with an assistant trained in statistics (Secretary).	
	CENTRAL PROVINCES.	
24	A separate Provincial Economic Development Board with similar District Boards in all the districts of the province should be established (para. 2169).	We have recommended a Board of Economic Enquiry in each province (para. 73). The Provincial Government may deal with these matters with the assistance of such a Board.
25	The Committee have pointed out the necessity for employing a whole-time executive officer with a separate staff for implementing the proposals of the Provincial Development Board, for securing continuity, and for giving expert advice from time to time, on technical questions (para. 2171).	
26	*Rural reconstruction.*—The Committee have pointed out that no form of rural uplift will serve any purpose in which economic development does not take the first place (para. 2194).	No remarks.
27	The Committee have recommended an intensive campaign in selected villages situated at convenient distances from one another, preferably in the bazaar villages, and have suggested that some 25 villages per tahsil could be selected for this purpose. They have added that, in these villages, officers of all Government departments in the district, co-operative credit workers and other non-officials should concentrate in an intensive campaign for the economic and moral reconstruction of those villages, so as to make them model villages for the country-side (para. 2174).	This is a matter for the Board of Economic Enquiry, the Government, the Co-operative Department and non-official agencies.
28	The Committee have stressed the need for education in thrift and for an intensive investment campaign, and have recommended the revision of the vernacular school curricula for this purpose, and, in the villages selected for rural reconstruction the introduction of compulsory education where necessary (paras. 2182, 2224, 2273 and 2275).	This recommendation is supported

29	The need for the rapid development of education in rural areas is stressed. . .	No remarks.
	COORG.	
30	Efforts should be made to reduce expenditure on ceremonies (para. 103) . . .	No remarks.
	MADRAS.	
31	Further investigation of the problem of rural economy, finance and record of rights could best be done by a Board of Economic Inquiry (para. 8).	This recommendation is supported and is partly dealt with in our report (para. 73).
	PUNJAB.	
32	The "*echelon*" system of payment of land revenue should be extended from the Multan and Rawalpindi Divisions to the whole province, and if possible, six weeks should be allowed for payment (para. 84).	This question deserves the consideration of the Provincial Government.
	UNITED PROVINCES.	
33	The financial position of the peasant can be improved in only two ways: (*a*) by increasing his income; (*b*) by decreasing his expenditure:— (1) There are numerous small-scale occupations available to a peasant, either as a substitute for agriculture or as supplementary to it. (2) Emigration is another remedy, but the people themselves may be left to apply it. (3) Additional cultivation is desirable, but there is little fresh soil available in the province, especially in those areas where it is most required. (4) New money-making crops, such as fruit-growing, should be tried. (5) Intensive cultivation in the sense of growing better crops *of the same kind* has already yielded and is bound to yield good results (para. 345).	No remarks.

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	RURAL FINANCE—GENERAL—*contd.*	
	UNITED PROVINCES—*contd.*	
	(6) Reduction in expenditure of a cultivator whose standard of comfort is miserably low can be effected in only one of two ways: (1) by borrowing less, especially for unproductive purposes; (2) by borrowing at lower rates. The best remedy is education—not merely literacy but the development of mental powers, and such education can best be imparted by the co-operative movement in which the leaders must come from the people, preferably from the peasants themselves (paras. 347-349).	No remarks.
34	*Board of Economic Enquiry.*—To provide the development departments with all facts and figures necessary to enable them to carry out their special duties and specially those connected with village reconstruction a Board of Economic Enquiry is urgently required in the province (para. 562).	This recommendation is supported and is dealt with in our report (para. 73).
35	The Board should be a compact organisation with a permanent whole-time Chairman and Secretary and the following members, *viz.*, Directors of Industries and Agriculture, and Registrar of Co-operative Societies, either the Settlement Commissioner or an ex-settlement officer, a representative of the Finance Department, one representative of each of the two Chambers of Commerce, two representatives of the five Universities, three non-official members of the Legislative Council, a joint-stock banker and an indigenous banker (paras. 563-564).	These are matters for the consideration of the Provincial Government.
36	The Board should work mainly by sub-committees with power of co-option. The Board should receive a lump sum grant-in-aid besides the pay of officers and staff (paras. 565-566).	
	CO-OPERATION.	
	ASSAM.	
1	The extension of rural societies and perhaps grain *golas* is necessary to check the indigenous system of paddy loans in Sunamganj (para. 54).	This recommendation is supported and has been accepted by the Provincial Government.

2	The agricultural department should extend its seed distribution both to individuals and through rural societies (para. 56).	This recommendation is supported and is under the consideration of the Provincial Government.
3	The fullest co-operation is desirable between the agricultural and co-operative department (para. 57).	This recommendation is supported and has been accepted by the Provincial Government.
4	The greatest importance must be attached to the initial steps taken in organising a rural society. The area of its operation and its membership should be limited so that the members may be fully acquainted with each other (paras. 138 and 139).	This is dealt with in our report (para. 155).
5	Rural societies should be affiliated to central banks. In sub-divisions which have no central banks, the rural societies should be financed by the district central bank, Government paying the cost of an extra supervisor (para. 139).	This is a matter for the Provincial Government. There is only one plains sub-division without a central bank and the Provincial Government have agreed to consider the question when proposals are received.
6	It should be explained to members of rural societies that they have full power to get rid of unsatisfactory or dishonest office-bearers or panchayat members (para. 140).	No remarks.
7	Loans for repayment of debts of members of rural societies should be refused unless there is a reason to believe that they can be repaid in 3 years. The central bank should strictly scrutinise loan applications received from rural societies (paras. 141 and 145).	This is dealt with in our report (para. 165).
8	Central banks should make every endeavour to realise overdues, should take steps to see that they do not accumulate in future, and should make adequate provision for reserve fund and fluid resource. Affiliated rural societies should be better represented on the Board of Directors of the central bank and should be paid a reasonable allowance for attending meetings. The Registrar in his annual report should deal with the overdues of central banks (para. 145).	Some of these recommendations are dealt with in our report. As regards the others, no remarks (paras. 157, 159 and 170).
9	The provincial bank should have a whole time manager with banking experience. An endeavour should be made to secure a better attendance of mofussil members at important meetings of the provincial bank, central banks and the provincial bank sharing the expense. It is desirable that affiliated institutions and not representatives of individual share-holders should have the preponderating voice in the provincial bank (para. 146).	
10	The provincial bank should make no delay in disposing of loan applications from central banks (para. 146).	This recommendation is supported.

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	CO-OPERATION—*contd.*	
	ASSAM—*contd.*	
11	Efforts should be made to secure an improvement in Co-operative stores by insisting on cash payments (para. 147).	Consumers' stores should not work on credit system.
12	The Registrars of Co-operative Societies should also be Directors of Industries but the Agricultural Department should be placed in the hands of a separate officer, preferably an expert (para. 148).	This is a matter for the Provincial Government who have already taken action.
13	The post of Assistant Registrar should be filled by an officer of the Assam Civil Service, and one, if not two junior officers should be given a thorough theoretical and practical training in co-operative work in the Punjab or Bombay and then attached as supernumerary to one of the Assistant Registrars (para. 148).	This is a matter for the Provincial Government.
14	The present staff of 11 inspectors should be increased by 3 inspectors and 7 auditors for rural societies. One selected inspector, to be designated an education inspector, should be trained in the Punjab or some other province where there are special facilities for training. He could then train all the inspectors. Cost of the pay of auditors should be borne by the rural societies, except perhaps in the case of the newer or poorer societies (para. 149).	This is a matter for the Provincial Government who have undertaken to give due consideration to this recommendation before the Registrar's proposals, now under examination, are finally decided on.
15	The primary duty of the auditors of rural societies who would be trained by the provincial and divisional auditors would be to conduct a through audit which would not be confined to a mere compilation of figures for the annual report. The chief task of the inspectors would be to guide and instruct and advise the panchayat and members of the rural societies as to their duties and responsibilities (paras. 149, 150 and 153).	This is dealt with in our report (paras. 160 and 173).
16	The inspectors and auditors should train and guide the secretaries of rural societies and town banks. The provincial auditor should train the secretaries of Co-operative Stores and the divisional auditors, the secretaries of the central banks. Supervisors of the central banks should attend the training classes of the inspectors (para. 151).	This is dealt with in our report (para. 173).
17	The secretaries of rural societies might be allowed to receive up to 25 per cent. of the net profits as remuneration on condition that overdues did not exceed 25 per cent of the outstandings (para. 151).	This is a matter for the Provincial Government.

18	It is desirable that central banks should encourage short term loans on *pronotes* at a concession rate of interest, to be repayable in one instalment out of the proceeds of the next harvest (para. 152).	This recommendation is supported.
19	More care should be taken in the preparation of *haisiyat* and in keeping them up-to-date (para. 153).	This recommendation is supported.
20	Extensions of loans to members of rural societies should not be granted too freely. Strict attention should be paid to overdues. By fixing proper *kist* dates and by better enquiry into the purpose of the loans, overdues could be minimised. Both central banks and rural societies should keep separate ledgers for overdues (para. 154).	This is dealt with in our report (para. 170).
21	While it is no part of the duties of the supervisors of central banks to audit or to organise rural societies, they can properly perform the duties of supervision and education as regards rural societies. They should not be allowed to have too much power in the central banks and the Directors of the banks and the assistant Registrars should endeavour to promote a harmonious relationship between the supervisors and the inspectors (para. 155).	This is dealt with in our report (para. 173).
22	It is advisable that District Officers and Sub-divisional Officers should take an interest in the co-operative movement (para. 156).	No remarks.
23	District Officers and Sub-divisional Officers should endeavour to enlist the sympathies of non-officials to take an interest in the co-operative movement. Village pundits and students of secondary schools and University Colleges should be taught something of the movement (para. 156).	We have made recommendations regarding co-operative education (para. 779). Otherwise no remarks.
24	The two co-operative organisation societies in the province deserve encouragement (para. 157).	This is a matter for the Provincial Government who report that these societies have received financial assistance from Government.
25	The time is not yet ripe for Assam to have a Co-operative Societies Act of its own (para. 158).	No remarks.
26	For the present, the main line of development must lie in the improvement and consolidation of rural societies rather than in their numerical expansion (para. 160).	
27	With a view to encouraging long term deposits, interest on deposits made for 5 years or more should be exempt from income-tax (para. 161).	The recommendation is not approved.
28	A remission should be granted of three-fourths of the money order commission to rural societies making remittances to central banks (para. 161).	We have no objection to the local Government refunding any portion of the money-order commission to the co-operative societies.

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	CO-OPERATION—*contd.*	
	ASSAM—*contd.*	
29	Permission should be granted to local bodies to deposit surplus funds, provident fund money and contractors' deposits with such central banks as are certified by the Registrar to be suitable for the purpose (para. 161).	This is a matter for the Provincial Government who are examining the question.
30	The provincial bank should not be given the exclusive right to borrow locally by attracting provincial deposits for financing the co-operative movement in the province, but central banks should continue to collect deposits (para. 162).	This recommendation is supported and has been accepted by the Provincial Government.
31	The provincial and central banks might make more use of the big commercial banks by depositing in them funds for which they had no immediate need and *vice versâ* the commercial banks could lend to the co-operative banks in their slack season (para. 163).	
	BENGAL.	
32	It is doubtful whether there is any necessity for forming the societies called agricultural associations as separate institutions. Their duties should be performed quite as well by the credit societies themselves or by the sale and	This recommendation is approved.
33	supply societies (para. 251). Sufficient credit facilities should be provided for small traders by the organisation	This is dealt with in our report (para. 320).
34	of traders' co-operative banks (para. 253). The central banks can be entrusted with other responsible work such as the	This proposal is not accepted and is unsound.
35	management of land mortgage banks (para. 258). A primary society should never be affiliated to more than one financing institution, and if already a member of a central bank, should not be admitted	
36	as a member of the provincial bank also (para. 261). The authorities who appoint inspectors and supervisors should select these officers with the greatest care and see that they possess, together with the requisite knowledge, that amount of patience and tact which is required for teaching the ignorant and illiterate villagers in economic principles of co-operation (para. 263).	These recommendations are supported.
37	Care should be taken to form societies composed of members of the same	This is dealt with in our report (para.

	status and possessing common interests, otherwise difficulties may arise (para. 268).	155).
38	Joint and unlimited liability, said to be another handicap, is absolutely essential for agricultural credit. Spread of education and teaching of the general principles of co-operation can alone dispel the misapprehension (para. 267).	This recommendation is supported.
39	The greatest defect, however, is the paucity of inspecting and auditing officers, and for this the Government of Bengal is responsible. The movement has not received the same amount of assistance from this Government as from other Governments in India. The progress already made and the present prosperous conditions must be attributed to the devoted care and labour of the non-official workers and the central banks (para. 269).	These matters are commended for the consideration of the Provincial Government. Attention is invited to our recommendation regarding audit (para. 173).
40	The Bengal Government should strengthen the inspecting and auditing staff adequately without any further delay (para. 269).	
41	The time has come when a comprehensive scheme for the thorough training of all inspectors, auditors and supervisors as well as non-official workers in every branch of their duties should be prepared and carried out (para. 270).	
42	The preparation and maintenance of statements of properties and debts of the members of the societies with unlimited liability is sadly neglected in many places. The importance of this work should be impressed on the panchayat of every society by the central banks and the inspectors, auditors and supervisors, and they should examine and test those statements evrey time they visit the society and make necessary corrections (para. 271).	**This recommendation is supported.** The matter is of great importance.
43	When the central bank is satisfied that a member of the panchayat has defaulted and the panchayat refused, when called upon, to initiate a "dispute" case against him, the bank should be empowered to do so, on behalf of the society. No change of law is required if the central bank is allowed to take a power of attorney from the society at the time of application, and in case of affiliated societies, before a new loan is granted, empowering it to institute and conduct dispute cases against defaulting members of the society on its behalf (para. 273).	This is a matter for the Provincial Government who can make rules under section 43 of the Co-operative Societies Act, 1912.
44	Supervisors should note at inspections whether the members of the panchayat have taken disproportionately large loans, and if so, the central banks should consider the matter at the time of granting new loans (para. 274).	This recommendation is supported.
45	To prevent delay in getting loans in primary societies the only remedy is to allow the society cash credit in the central bank against which it can draw in case of emergency. The Registrar has advised the grant of such cash credits in case of A or B class societies only. The central banks should grant cash credits much more freely to every society that they consider to be deserving of the privilege (para. 275).	The cash credit should be limited to A and B class societies.

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	CO-OPERATION—*contd.*	
	BENGAL—*contd.*	
46	Unless the area of its operation is too large or the means of communication exceptionally bad, no central bank should be split up before the number of its affiliated societies reaches 300, and even then no new central bank should be formed until a sufficient number of men of intelligence and influence and possessing knowledge of co-operation can be found in the locality to form its directorate (para. 276).	This is dealt with in our report (para. 179).
47	The co-operative stores in urban areas are almost all unsuccessful. They should be liquidated and no new stores formed either in urban or in rural areas unless there is clear evidence of loyalty and co-operative spirit among the members (para. 279).	This is a matter for the Provincial Government.
48	All primary societies, agricultural as well as non-agricultural, should be encouraged, either individually or through the financing institutions, to make co-operative indents for the requirements of their members and supply them on cash or credit according to the circumstances of the members (para. 279).	This recommendation is supported.
49	We cannot recommend loans to depositors or premature withdrawals as a matter of right in the case of institutions which finance primary societies (para. 280).	The principle is accepted though loans on fixed deposits are considered reasonable in practice.
50	The provincial bank, the central and the urban banks can undoubtedly make reasonable claims to do banking business and their suitability as general banking organisation cannot be questioned (paras. 281—282).	This is dealt with in our report (paras. 174 and 319).
51	Movement of money is one of the most important functions of a bank, and it should be facilitated in all possible ways. Though discounting of bills of persons other than members is not permitted by the law, bills may be accepted without any prejudice for purposes of collection of money due, as this method only helps in remittance of funds (para. 283).	This recommendation is supported.
52	The main function of a central bank is the financing of primary societies, and at the present stage of the co-operative movement, its attention or any portion of its resources should not be diverted to other activities for the sake of increasing the profits. In other words, the claims of the Directors of the central banks to undertake commercial banking cannot be supported (para. 285).	This recommendation is supported.
53	A network of co-operative banks of the urban type should be organised in all	This is dealt with in our report (paras.

	bazars, *bandars*, marts and other important trade centres for not only financing the small traders and industrialists but also for providing facilities for remittance and collection of bills (para. 287).	317 and 319).
54	Cash credit, which is the most commercial form for providing financial accommodation, should be extensively employed (para. 288).	Accommodation should be given in the form most convenient to the members, either by way of cash credits or by discounting bills.
55	Town banks can also help their members by discounting hundis, promissory notes or negotiable instruments and commercial bills (para. 289).	This is dealt with in our report (para. 319).
56	Town banks should be much more freely assisted by the provincial bank than they are at present. The Imperial Bank should also be prepared to grant concessions by way of cash credit much more freely than at present and rediscount their bills (para. 291).	This is dealt with in our report (para. 159).
57	The present system of lending by the provincial bank to the central banks and by the latter to the primary societies, is the best possible arrangement (para. 293).	This recommendation is accepted.
58	The suggestion that the central banks and financing unions might be branches of the provincial bank is not approved (para. 294).	This recommendation is accepted.
59	Free inter-lending between different co-operative banks, whether in the same district or not, is not recommended (para. 295).	
60	The recommendation of the Royal Commission on Agriculture in para. 379 of their report, as regards certain concession to the co-operative movement, are endorsed (para. 296).	
61	Interest derived from the Government securities, held as an investment of the reserve fund, should be exempt from income-tax. The income derived from all investments within the movement should not be included in the total income for determining the appropriate assessable rate for income-tax or super-tax, for all this income is not really proper. We are unable to recommend that the Government securities held for other reasons, *e.g.*, for temporary employment of funds during the slack season, should be exempt from income-tax (para. 297).	These are dealt with in our report (paras. 194-196).
62	Realisation of dues from a defaulting member through the arrear collection department of the Collector, instead of through the civil court as at present, should be permitted (para. 298).	This recommendation is accepted. Both agencies are used in some provinces.
63	As regards deposit of funds of the Court of Wards, municipalities, district and local boards, etc., in co-operative banks, experiments may be made in cases of selected banks (para. 299).	This is a matter for the Provincial Government.
64	Inter-lending between co-operative banks and loan offices should not be allowed in the present state of their finances (para. 302).	This recommendation is accepted.
65	Facilities granted by the Imperial Bank should be more freely extended (para. 303).	This is dealt with in our report (para. 181).

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	CO-OPERATION—*contd.*	
	BIHAR AND ORISSA.	
	For the improvement of agricultural credit the first essential is a clear distinction between the credit required to grow the crop and that required to relieve the producer from the dead weight of previous borrowing and to enable him to produce more and better crops. For the ordinary agriculturists the Committee see no means of improving the method of supplying either form of credit, except the extension and betterment of co-operative banking. With this end in view they recommend:—	
66	(*i*) Separation of the business of central banks into short-term and long-term business (para. 296).	This is dealt with in our report (para. 165).
67	(*ii*) Extension of cash credits for primary societies (para. 250).	This is dealt with in our report (para. 174).
68	(*iii*) Raising of part of the capital required for short-term loans by means of short-term bills (para. 278).	This is dealt with in our report (para. 176).
69	(*iv*) Restricted use of collateral security for short and medium-term loans (para. 247).	The arrangement must be such as not to interfere with the working of land mortgage banks when started.
70	(*v*) More grain *golas* in Chota Nagpur and Orissa (para. 308) . . .	This is dealt with in our report (para. 280).
71	(*vi*) Some extension of the normal period for long-term loans (para. 298).	This is dealt in our report. Long-term loans for an average period of 10 years by central banks and societies are not recommended (para. 165).
72	(*vii*) Redemption of mortgaged land by degrees (para. 303)	This is dealt with in our report (para. 218).
73	(*viii*) Raising of capital for redemption of debt by debentures issued by the provincial bank (para. 343).	This is dealt with in our report (para. 222).
74	(*ix*) Improved training for official and non-official workers (para. 291) . .	This is dealt with in our report (para. 179).

75	(*x*) Less interference by central banks with primary societies especially in grant of short-term loans (para. 288).	This recommendation is accepted.
76	(*xi*) Detailed examination of reasons for high rates of interest (para. 281).	These recommendations are accepted.
77	(*xii*) Expediting liquidation cases and publishing results (para. 255) . . .	
78	(*xiii*) Experiment in branch banking (para. 306)	This is dealt with in our report (para. 179).
79	(*xiv*) Concentration mainly on agricultural credit societies (para. 253) . .	This is dealt with in our report (paras. 317 and 319).
80	(*xv*) Creation of a board to advise the Registrar (para. 313)	This recommendation is not supported.
81	(*xvi*) A further enquiry by a special committee (para. 314)	This is a matter for the Provincial Government.
82	(*xvii*) Multiplication of co-operative credit societies for professional men on limited liability (para. 165).	This is dealt with in our report (para. 317).
83	Employers should be urged to organise co-operative credit societies among their employees (para. 166).	This is dealt with in our Report (para. 320).
84	The urban co-operative societies, known as "Traders" or "Peoples" banks, should be extended to other towns (para. 309).	This is dealt with in our report (para. 317).
	BOMBAY.	
85	In the canal tracts of the Deccan, the situation is becoming serious owing to rise in cost of cultivation and fall in price of sugarcane. It is essential that the repayment of the outstandings should be spread over a number of years and that the provincial bank should give the necessary instalments for the purpose. For the bigger cultivators, a land mortgage bank should be started to supply current finance, while for the smaller ones ordinary co-operative societies should continue to make the necessary advances (para. 96).	The extension of the period of repayment is reasonable, and is a matter for the provincial co-operative bank. Ordinarily co-operative societies can supply finance for a period up to 3 years and no separate land mortgage bank is necessary.
86	In the case of aboriginal tracts, the only two practical remedies are the spread of co-operative societies on the lines followed in the Panch Mahals district and the gran of *takavi* loans by Government. In either case, a speciol staff will be necessary to supervise and conduct the operations (para. 97).	This is a matter for the Provincial Government.

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	CO-OPERATION—*contd.*	
	BOMBAY—*contd.*	
87	As for the *hari*, either the zemindar must undertake to finance him or he should get finance from the co-operative society, his zemindar standing surety for him (para. 99).	The *hari* is a tenant at will and not a labourer and the society has a first charge on the crop raised by him under section 24 of the Bombay Act. It will, however, be better from the point of view of the society if the zemindar stands as surety.
88	Middlemen suffer considerably for want of finance on easy terms. Their needs may be met adequately by the co-operative urban bank or by indigenous bankers, if these are appointed agents of the central banking institution as suggested by the Committee in Chapter XIII (para. 152).	This is dealt with in our report (paras. 142 and 317).
89	The requirements of small traders and artisans are at present met to a certain extent by co-operative societies. Such credit by the co-operative institutions should be developed (para. 166).	This is dealt with in our report (para. 316).
90	It is essential that the question of proper selection of members should be borne in mind by those responsible for management or supervision of primary societies (para. 208).	This is dealt with in our report (para. 156).
91	Membership of such societies should not become unwieldy (para. 208) . .	This is dealt with in our report. As far as possible the policy should be one village, one society (para. 155).
92	Attempts must be made to teach every member of co-operative societies not only his rights and privileges but also his duties and responsibilities. This work should be undertaken by the Provincial Co-operative Institute assisted by the trained staff of the Co-operative Department. The co-operative movement has a claim on the resources of Government for expenditure on such education (para. 209).	These recommendations are supported.
93	A proper and timely preparation of normal credit statements by primary societies is necessary. Every central bank should take special care to see that this is done (para. 210).	
94	Special limits of loans are being fixed in the case of suitable members of	It would be unsound to fix limits for

	primary societies where ordinary limits are not sufficiently high. Such limits should be fixed for a period of three years (para. 211).	a longer period than one year.
95	Loans to individual members should be advanced as far as possible in instalments and not in lump (para. 212).	This is dealt with in our report (para. 174).
96	In the bye-laws as well as in the accounts of the societies short-term, intermediate and long-term loans should be clearly distinguished (para. 213).	This is dealt with in our report (para. 165).
97	Separate societies should be organised for big landholders in the Presidency proper as is being done in Sind, wherever there is a large number of such landholders (para. 214).	This is dealt with in our report (para. 177).
98	Great care is necessary as regards selection and training of supervisors engaged by supervising unions. Selection should be subject to the approval of the district federation of unions, wherever such exist (para. 215).	This is dealt with in our report (para. 173).
99	Banks may advance loans to primary societies to finance good members only, even when others have defaulted. In the present state of development it is not necessary to enforce the principle of corporate responsibility too rigidly (para. 216).	These recommendations are supported.
100	Before cancelling a mismanaged society, the union should have the authority, with the consent of the Registrar, to suspend a society and to entrust its management to a suitable person or persons for a definite period, not exceeding two years (para. 217).	
101	The Co-operative Department has been following a policy of consolidation and improvement rather than of expansion during the last few years. It is necessary now that, with all the ordinary safeguards, more societies should be organised wherever the ground is ready for them (para. 218).	This recommendation is supported. Specially non-credit societies and special type societies should be organised wherever possible.
102	Share system would be a better method for encouraging thrift than compulsory deposits. The need for voluntary fixed deposits will, however, remain and members should be encouraged to make such deposits (para. 219).	These recommendations are supported.
103	Efforts may be made to introduce savings deposit system in all well-managed primary societies (para. 219).	
104	A federation of urban banks should be organised in each of the linguistic divisions of the Province (para. 221).	This is a matter for the Provincial Government.
105	Co-operative urban banks should not be allowed to finance joint stock concerns. The needs of such concerns can be met more appropriately by industrial banks (para. 221).	This is dealt with in our report (para. 319).
106	Urban banks may be allowed to finance bigger men, provided they have sufficient funds to satisfy the demands of men, with small means. The suggestion that urban banks may be allowed to finance artisans' societies within their areas is not approved as this is the function of district central banks (para. 221).	There is no reason why urban banks should not finance artisan societies within their areas (para. 319).

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	CO-OPERATION—*contd.*	
	BOMBAY—*contd.*	
107	The business of urban banks can be considerably expanded if they make advances on the security of agricultural produce and also on the security of gold and silver where arrangements can be made for godowns and for proper custody (para. 221).	This is dealt with in our report (para. 319).
108	Urban banks should concentrate mainly on short-term business and should not lock up their funds in loans on the security of houses and landed properties (para. 221).	This recommendation is supported and is dealt with in our report (para. 319).
109	Salary earners' societies should be looked upon primarily as thrift societies. Credit when allowed should be based on the desire and ability of the members to practise thrift (para. 222).	Do. (para. 317).
110	In rural areas members of depressed classes should generally be advised to join local village co-operative societies. It is not necessary to organise separate societies for such classes, except when the men are engaged in some special industries such as leatherwork or weaving, for which special arrangements for finance are required (para. 224).	Do. (paras. 155 and 307).
111	Special societies would be necessary in urban areas for members of depressed classes constituting distinct groups by reason of their being engaged in some particular trade and industry. The best course for them, however, would be to seek admission to an urban people's bank (para. 224).	These recommendations are supported.
112	Where large numbers of the members of the depressed classes are engaged in the service of a public corporation, the public body may be induced to start a co-operative society to which these men should be freely admitted as members (para. 224).	
113	There should be co-ordination between the co-operative sale societies and co-operative credit societies (para. 225).	
114	For co-operative land improvement societies it is necessary to take power under the law to compel a minority to join a scheme and to contribute towards its expenses and maintenance, when 75 per cent. of the holders of land owning not less than three-fourths of the land falling within the scheme agree to combine and form the society (para. 226).	

115	The ultimate policy as regards branches of the provincial bank should be to evolve a banking union out of every one of them. A beginning may be made by changing the constitution of the branch advisory committees so as to convert them into local boards of directors and empower them to advance loans up to a certain maximum amount for a single society (para. 231).	
116	A branch of the provincial bank may be converted into a banking union, provided the latter is in a position to give the same facilities to its constituent societies as are given at present and two-thirds of the societies in the area agree to the conversion (para. 231).	
117	The business of the central banks will considerably develop if they start branches within the area financed by them (para. 231).	This may be desirable when the area of operations of the central bank is large.
118	The proposal for the centralisation of all co-operative finance in one institution is not approved (para. 232).	This is accepted, but co-ordinated financial policy is necessary.
119	The work of central banks should be co-ordinated by the organisation of a small committee consisting of a representative of the Co-operative Department, one of the provincial bank, three of central banks and one of urban banks (para. 233).	These are matters for local co-operators. Co-ordination is secured in other ways elsewhere.
120	Such a committee should look into all important matters, particularly the training of the staff, their adequacy and efficiency, the borrowing and lending rates of the banks, inspection of central banks and divisional federations of urban banks and similar matters of common interest (para. 233).	
121	It is not necessary for central banks to co-operate for the purpose of lending and borrowing on a provincial scale (para. 234).	If a central co-operative banking system is to act as a real balancing centre, the central banks should co-operate on certain definite lines.
122	The provincial bank as the apex bank for the whole movement should have a substantial cash credit from the Imperial Bank (para. 236).	This is dealt with in our report (para. 181).
123	When land is held by an inferior holder on terms which prevent him from raising money on its credit, either the superior holder should finance the inferior holder or should stand as surety for loans which the latter may obtain from co-operative societies (para. 250).	
124	In the case of inalienable *inam* lands, Government should either undertake to finance the holders by means of *takavi* or should allow the lands to be mortgaged to co-operative societies (para. 250).	We agree.
125	Co-operative cattle insurance societies should not be started unless the actuarial aspects of the proposal are thoroughly investigated in a scientific manner (para. 300).	

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	CO-OPERATION—*contd.*	
	BURMA.	
126	Co-operativt societies should hold fast to sound business methods, cure the defects which the Committee describes as the principal causes of the recent crisis, avoid locking up capital in long-term loans, and endeavour to collect local deposits both from members and from non-members (paras. 392, 405).	Caution is required in the case of non-members' deposits for the repayment of which adequate fluid resources must be kept.
127	Loans repayable at next harvest should be the principal business of primary societies. Other loans should be forbidden except loons to buy plough-cattle in societies where the members usually employ only one or two yoke (paras. 393, 398).	The principle of this recommendation is dealt with in our report (paras. 98, 99 and 165).
128	All loans should be more adequately controlled; purposes should be stated in specific detail; loans should be given in instalments as required and promptly and vigorously recovered (paras. 394 to 398).	This is dealt with in our report (paras. 170 and 174).
129	Committees of societies should meet frequently; societies should be confined to small areas; number of societies should be limited to those that can be supervised and trained thoroughly (para. 395).	The policy of one village, one society is ordinarily safe, unless the village is a very big one (para. 155).
130	Societies should keep separate accounts of loans for which the time of repayment has been postponed (para. 396).	This recommendation is supported.
131	The credit of every member who manages his affairs extravagantly or does not treat his plough-cattle in the best way should be restricted (para. 398).	This is a matter for the panchayats.
132	Official control of societies is generally inadvisable, control should rather be by societies over themselves and by central banks (paras. 400 and 401).	This recommendation is supported.
133	Central banks which can make arrangements for liquid resources should be free to accept current accounts without restriction (Minority dissent) (para. 408).	These recommendations are supported.
134	Urban banks should be permitted to accept current accounts subject to certain conditions (para. 409).	
135	Money order commission should be reduced for co-operative societies (para. 411) .	This recommendation is not approved. It is, however, open to the local Government to make concessions on the lines in force in other provinces.

136	(*i*) Present exemptions of co-operative societies from stamp duty and registration fees should continue (para. 413). (*ii*) An additional exemption should be given for the stamp duty on arbitrators' awards (para. 413).	These recommendations are supported.
137	Present rules relating to income-tax upon the income of societies and upon payments made by societies to continue with the additional exemptions from tax of— (*a*) interest on securities held by a co-operative society and issued by Government or a local authority; (*b*) interest paid by a co-operative society on debentures issued by it (para. 414).	This is dealt with in our report (paras. 195 and 196).
138	Public funds should be allowed to be deposited with co-operative banks (para. 417).	This is a matter for the Provincial Government.
139	Closer connection between co-operative banks and the general banking system should be striven for (para. 420).	These recommendations are supported.
140	Co-operative banks should aim at conferring a higher degree of liquidity upon their paper for discount with other banks (para. 420).	
141	Rates of interest on deposits in co-operative banks should be reduced as soon as possible (para. 420).	
142	Government should not supply working capital on a large scale for co-operative banks as a permanent arrangement (paras. 421, 22).	The recommendation is supported. Capital supplied by Government should not be suddenly withdrawn (paras. 187 and 189).
143	The desirability of appointing a committee on co-operation for all India should be considered.	This recommendation is not supported.
144	Co-operative banks and societies should endeavour to collect savings-deposits (para. 616).	We agree.
	CENTRAL AREAS.	
145	Under the existing conditions, the agriculturist takes no advantage of the fact that he needs, for cultivation purposes, essentially short-period loans at a time of the year when there is generally a slack season in trade and industry, when the big shroffs are anxious to find suitable investment for their funds even at 5 per cent., and when even the Imperial Bank can afford to lend freely at very cheap rates of interest (para. 88).	This is dealt with in our report (para. 176).

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	CO-OPERATION—*contd.*	
	CENTRAL AREAS—*contd.*	
146	It is necessary to increase the strength of the co-operative staff to attend to the vital need of inculcating the principles of co-operation among the members of societies, and while the formation of new societies in the rural areas of Ajmer-Merwara and Delhi should not altogether cease, the efforts of all workers in the co-operative movement, officials as well as non-officials, should, for some years to come be particularly directed to the rectification and consolidation of the existing co-operative credit societies and the improvement in the economic positions of the individual members. These recommendations do not apply to the North-West Frontier Province where the movement in the rural areas is yet in its infancy and needs expansion; but it is suggested that co-operative workers in that province should, while spreading the co-operative movement, pay due regards to the lessons to be drawn from the experience of Delhi and Ajmer-Merwara (para. 119).	This is a matter for the local Government.
147	With the improvement in the quality of both members and societies, the surplus funds in the central bank will tend to disappear; but should this for any reason be delayed, the central co-operative banks should not accept more deposits than they can profitably employ in the movement within their respective provinces, or divert funds to other provinces or to investment in Government securities beyond what is necessary for fluid resources, as there is ample scope for employing urban savings in the financing of urban trade and industry or in increasing credit facilities for the poorer sections of the urban communities in the cities of Delhi and Ajmer-Merwara (para. 119).	The central banks may lower their deposit rates but need not refuse deposits.
148	To stimulate greater interest and greater sense of responsibility in societies affiliated to central banks, the Committee consider it advisable to disqualify from voting at general meetings the representatives of societies which are in default of the instalments due to the central bank, and in order to strengthen the non-official trained element on the management, the Committee further recommend that central banks should be allowed to co-opt whenever they consider it necessary at least two non-official members to the board of management who have special knowledge of co-operation or banking, such co-opted members having no right to vote (para. 120).	The first part of the recommendation is not approved. The second part is supported.

149	The Committee endorse the recommendation of the Madras and the Central Provinces Committees on co-operation that a clear distinction should be made between crop loans repayable in whole out of the following harvest unless crops fail and long term loans repayable in instalments over a period of years out of the annual savings of the borrowers, and suggest that with a view to enforce the recognition of this distinction separate application forms, and separate promissory notes be insisted upon both the primary societies and central banks, and the central banks be required to keep separate ledgers and make separate entries for each in their balance sheets (para. 121).	If by long term loans in this recommendation is meant intermediate loans up to three years, the recommendation is supported.
150	The Committee recommend further that loans which are overdue as compared with the promises made in the pro-notes or in the applications for loans by the primary societies or statements made in the resolutions passed by primary societies at the time of making an application for loans should be transferred to a separate ledger, and that the affiliated societies should be required to submit to their central bank reports on these overdues two months before each harvest (para. 121).	This recommendation is supported.
151	The Committee consider it only proper that the resolution of each affiliated society, stating that the loan for which it has submitted an application to the central bank would be paid back within a specified number of years should always be communicated to the central bank so as to enable it to make an estimate, which may be subsequently revised at each harvest, of the amount of outstanding loans repayable to it in each year (para. 121).	Annual forecasts are more convenient.
152	In order to stimulate efforts to improve the quality of societies particularly in the matter of recoveries and overdues it is worth while for the central banks to discriminate in favour of societies of better quality in the matter of interest charges. This is already done to some extent in Ajmer-Merwara and Delhi and the Committee recommend that the system should be extended further (para. 121).	This is a matter for decision by local co-operators.
153	It is essential for the success of the co-operative credit movement that care should be taken by the primary society to make intensive enquiries into the whole economic position of the applicants for admission and exclude persons who cannot repay their debts out of the proceeds of their crops in the case of short term loans, and out of their savings in the case of long term loans, or who cannot be made solvent by lowering the rate of interest or decreasing their unnecessary expenditure or by improving their character by mutual control (para. 122).	This recommendation is supported.

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	CO-OPERATION—*contd.*	
	CENTRAL AREAS—*contd.*	
154	Since the deposits both in the primary societies and their financing institutions are generally for short periods of time, it is desirable to restrict the scope of the ordinary credit societies mainly to short-term credit which may include crop loans as well as loans given for not more than 2 or 3 years in special cases (para. 123).	This recommendation is supported and is dealt with in our report (para. 165).
155	In case the Committee's recommendation regarding co-operative land mortgage banks is accepted, the Committee recommend that agricultural co-operative credit societies should not admit to membership any one whose previous debts and encumbrances will require more than 6 years to be discharged, unless he enrols himself as a member of a land mortgage bank (para. 123).	This recommendation is not supported.
156	In the present stage of the co-operative movement, it is desirable that an appreciable number of members should be free from previous debts and encumbrances and that the co-operative credit societies should limit their credit facilities mainly to requirements for crop purposes or for tiding over occasional periods of scarcity or famine. Till the land mortgage banks are started a limited number of persons encumbered with previous debts may, however, be admitted as members of co-operative societies on probation for three years subject to the following conditions:—	
	(*a*) that the probationer member shall not borrow from any outside agency or create any encumbrances upon his property without the previous consent of the society;	These restrictions are wholly undesirable. Even indebted members may be benefited by being saved from going to the money-lender for crop finance.
	(*b*) that he shall repay towards his previous debt, and interest charges, a sum which the society considers reasonable at each harvest; and	
	(*c*) that in case he brings necessary sureties or give adequate security by way of mortgage of his property in favour of the society, the society shall assist him in reducing his previous debt to outside creditors by advancing him twice the amount he himself contributes at each harvest, provided that he makes no default either in payment of interest due to the society or in repaying any crop loans advanced by the society (para. 124).	

157	It is essential for the success of any scheme of debt redemption by co-operative credit societies or land mortgage banks, especially in view of the unfortunate experience of the results of debt redemption by co-operative credit societies in Ajmer-Merwara that—	
	(a) Legal power should be given to them to apply to the Collector for the issue of a proclamation calling upon all creditors of their clients to disclose their loans within a reasonable time limit, failing which no court of law should give priority to undisclosed debts in any proceeding relating to the execution of decree, and in case a debtor member challenges the correctness of the claims put in to call upon the creditor through the Collector to prove his claims in a court of law within a time-limit fixed by the Collector;	These recommendations are not approved.
158	(b) the law should be amended so as to give the co-operative credit societies and land mortgage banks the benefit of provisions similar to those embodied in the Encumbered Estate Acts, under which any future loans taken by their clients from outside creditors should not be admissible in law courts so long as any amount advanced by them remains unpaid;	
159	(c) subsequent loans made by Government under the provisions of the Land Improvement Loans Act and the Agriculturists Loans Act should not take priority over earlier long period loans given by a co-operative credit society or a land mortgage bank and that such amendments of law as are necessary for securing this object should be made at an early date;	So far as land mortgage banks are concerned, the charges should rank in the order of their priority.
160	(d) in all cases of default in the payment of instalments on account of a mortgage loan, land mortgage banks and co-operative credit societies should have the power of selling without resort to a court through an executive officer authorised in this behalf by the local Government, after giving the defaulter 3 months' notice to pay the instalment; and	This recommendation is approved and is dealt with in our report (para. 225).
161	(e) the Land Alienation Act and all rules and regulations under it should be modified so as to include co-operative credit societies and recognised land mortgage banks in the definition of "agriculturist" so far as the sale and transfer of land are concerned and place them under the same restriction in respect of their power to sell land as are imposed on the agriculturists by the Land Alienation Act, provided that the co-operative credit societies or the land mortgage banks shall not be at liberty to hold possession of the land for more than three years without selling it. Mr. Chablani dissents from this proviso on the ground that it will prevent experiments in co-operative farming, which in his opinion should be encouraged by all possible means in view of the very small and scattered holdings in a large part of the centrally administered areas (para. 124).	This is dealt with in our report (para. 228).

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	CO-OPERATION—*contd.*	
	CENTRAL AREAS—*contd.*	
	A determined effort ought to be made to draw into the co-operative movement the saving and capital of the *mahajan* and agriculturist money-lender at rates of interest not exceeding those at which primary co-operative societies borrow from the central bank at present, and to include in the agricultural co-operative credit societies some members with settled habits of thrift and businesslike instinct. The bye-laws of the societies should, therefore, be amended so as to permit admission of a special class of members who— (*a*) will assume a liability limited to their share capital; (*b*) will borrow less from the society than their deposits therein and buy a prescribed minimum number of shares on which no dividend shall be paid; (*c*) whose deposits shall have the same claims on the assets of the societies as a deposit by a non-member and be considered in every respect as a debt owned by the society; (*d*) should agree not to lend money directly to any fellow member of their co-operative credit society (para. 125).	These recommendations are not approved. This is dealt with in our report (para. 123).
162	In years when the village crops are above 8 annas in the rupee, village co-operative societies should be persuaded to make a special effort under proper safeguards imposed by the Co-operative Department to attract deposits from members preferably for periods longer than one year, by offering rates even up to their borrowing rate from the central bank.	This recommendation is supported.
163	Borrowers from the co-operative societies should be induced by their panchayats to entrust to them their gold and silver ornaments (except a gradually decreasing minimum amount fixed by the panchayat from time to time) for sale and deposit in the central co-operative bank in the name of a woman of the family, on which the central bank should give compound interest at half per cent. less than the rate charged to the society by the central bank, the whole principal and interest being returnable in cash or gold at the option of the depositor when the borrower has discharged his debt to the co-operative societies. The existing law should be amended so as to make it clear that the amounts so invested shall be treated in all legal proceedings as ornaments on the person of a woman (para. 126).	This recommendation is not supported but loans may be given against gold and silver ornaments.

	CENTRAL PROVINCES.	
164	*Village Panchayats and Co-operative Societies.*—The Committee have pointed out the urgent need for the creation of village panchayats in all the villages selected for the campaign of rural reconstruction at the commencement of operations, and have recommended the establishment of co-operative societies not only for providing credit and investment facilities, but also to perform the functions of co-operative sale and supply societies (para. 2176).	This recommendation is supported.
	COORG.	
164A	There is scope for supplementary irrigation by wells for which loans may be granted (para. 64).	This is commended for the consideration of the local Government.
165	A fuller business training should be provided for co-operative workers (paras. 52, 107).	This is dealt with in our report (para. 179).
166	Junior officers should be sent to one of the Madras Institutes for training (para. 107).	We agree.
167	A keener interest in the villages should be awakened in co-operative societies (paras. 52, 107).	
168	Primary co-operative societies should have general meetings frequently (para. 107).	
169	The co-operative organization should be used as an advertising medium for agricultural improvements (para. 107).	
170	The co-operative central bank should open current accounts for members (paras. 118, 128).	These are dealt with in our report (paras. 157 and 174).
171	The central bank should keep savings bank accounts for its members (para. 118).	
172	Urban co-operative societies should provide for recurring deposits of members (para. 128).	This recommendation is supported.
173	The central bank should have a personal deposit in the treasury. It should be permitted to borrow from the treasury on Government paper for fluid resources (para. 118).	Pending the opening of a bank or a branch of a bank this recommendation is supported.
174	Rural societies should, where practicable, have savings bank deposits for members (para. 118).	This recommendation is supported.
175	Exemptions from income-tax should be continued (para. 119)	This is dealt with in our report (paras. 195-196).
176	The limit to the amounts which can be remitted by remittance transfer receipts should be removed (para. 119).	This recommendation is supported.

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	CO-OPERATION—*contd.*	
	COORG—*contd.*	
177	Co-operative societies should remit by money order through post offices at half-rates (para. 119).	This recommendation is not supported but we have no objection to the local Government refunding to co-operative societies any portion of the money order commission.
	MADRAS.	
178	As regards co-operative credit societies, it is necessary to provide higher speed machinery for sanctioning loans and for distributing cash (para. 324).	This recommendation is supported and is dealt with in our report (para. 174).
179	There is clearly need for much more instruction in almost all grades of the co-operative hierarchy (para. 328).	Do. (para. 179).
180	Intensive propaganda and training by official and non-official bodies are necessary for the growth of co-operative banking (para. 340).	Do. (para. 173).
181	The existing concessions of the Government for the free remittance of funds for *bonâ fide* transactions between co-operative societies should be continued (para. 341).	Do. (para. 182).
182	The limit to the amounts which can be so remitted should be withdrawn (para. 341).	
183	There should be a reduced rate for remittance by money order where there is no taluk office within five miles of the post office used by the credit society (para. 341).	This recommendation is not supported.
184	Permissive legislation might be introduced to make trust funds available to co-operative central banks (para. 342).	This recommendation so far as it applies to all co-operative institutions is not approved. But when land mortgage debentures become trustee securities, trust funds will become available to provincial land mortgage banks.
185	More precise charges should be created on crops in favour of creditors providing loans to assist production (para. 345).	The creation of a charge is recommended in favour of co-operative societies (para. 155).
186	Such charges should be enforceable promptly (para. 345)	
187	Any one acting in a manner prejudicial to the interest of those charges should be promptly punished (para. 345).	

188	The institution of an all-India Co-operative Bank is premature (para. 354) . .	This is dealt with in our report (para. 161).
189	The co-operative banks should provide from their own funds, apart from overdrafts liable to cancellation, a greater amount of their own fluid resources (para. 356).	This is dealt with in our report (para. 181).
190	The co-operative banks should no longer be required to deal solely with the Imperial Bank (para. 356).	This recommendation is approved.
191	Well-managed co-operative societies could do useful work among the hill tribes in the Agency tracts (para. 362).	We agree.
192	Every possible effort should be made by the Co-operative Department to provide cash facilities for village societies (para. 510).	These recommendations are supported.
193	The Co-operative Department should encourage the development of savings bank accounts (para. 510).	
194	The Co-operative Department should introduce home-safe deposits (para. 510).	
	PUNJAB.	
195	The Registrar, Co-operative Societies, should consider the possibility of making further experiments in liquidating the debt of members of approved co-operative credit societies, subject to certain safeguards (para. 34).	It is desirable to limit loans to co-operative societies to three years and not five years (paras. 165).
196	The experiment made by co-operative credit societies in 1929 of giving their members special loans at favourable rates in a time of emergency due to floods should be repeated (para. 46).	These recommendations are approved.
197	Co-operative credit should be developed to the utmost possible extent (para. 55).	
198	In all schemes of future development liberal provision should be made to enable the co-operative staff to satisfy as fully as possible the fundamental need of training every member in the elementary principles and practice of co-operation (para. 152).	
199	Three inspectors should be appointed without delay to develop urban co-operation (para. 154).	
200	Every effort should be made to establish a co-operative society in every suitable village within the shortest possible period, *conpatible with safety*, and for this purpose assistance should be given by Government as recommended (para. 161).	The principle is approved. The matter is for the consideration of the Provincial Government.
201	Primary credit societies should be allowed to open current accounts with Sub-post offices and to operate the accounts by cheque (para. 164).	This is dealt with in our report (paras. 548 and 646).

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	CO-OPERATION—*contd.*	
	PUNJAB—*contd.*	
	Savings Banks accounts of Co-operative Central Banking Institutions—	
202	(*a*) Illiterates should be allowed to open accounts.	These recommendations are approved. Very capable clerical staff should be employed to do this business.
203	(*b*) The minimum sum for opening a deposit account should be reduced to rupee one.	
204	(*c*) Depositors should be allowed to operate their accounts by cheque, subject to the rules of withdrawal (para. 167).	
	Central Co-operative Banks—	
205	(*a*) Subject to the necessary safeguards, the experiment of opening branches should be extended to towns which at present have no commercial bank (para. 169).	This recommendation is approved but if an urban bank serves the purpose better, it should be tried.
206	(*b*) A further experiment should be made with payments of land revenue through central banks, where (*i*) there is a branch of the Imperial Bank and (*ii*) co-operation is well established (para. 170).	These recommendations are approved.
207	(*c*) The experiment of paying military pensions through central banks should be tried (para. 171).	
	UNITED PROVINCES.	
208	Facile credit without adequate training of the people in its use is dangerous. What is needed is not a large number of societies scattered all over the province, but concentrated effort in one or two selected areas (para. 289).	We do not agree with the second sentence as a general proposition. We are in favour of wide extension of co-operation on sound lines. It is, however, possible that conditions in the United Provinces are special and require special treatment.
209	The new class of supervisors under the provincial supervising union should make for the better education of the members and the better supervision of the societies (para. 290).	We agree.
210	Since co-operation for its success must have the right spirit and atmosphere, ordinarily societies for rural reconstruction and better living should precede credit societies or at least the two should be started side by side (para. 291).	This is dealt with in our report. No remarks (para. 74).

211	Detailed enquiries should be made forthwith in different localities to ascertain the credit needs for productive purposes of different classes of cultivators, the time of such needs and how they are met at present (paras. 292-293).	We agree.
212	Co-operative societies should only provide short-term and intermediate loans for productive purposes; they should not ordinarily give long-term loans or loans for unproductive purposes. Long-term loans may be obtained from the land mortgage banks referred to later (paras. 294-295).	This is dealt with in our report (para. 165).
213	The societies should ordinarily consist of persons of equal status, and keep out undesirables. In cases of default immediate and drastic action should be taken. To make this possible the co-operative staff should be empowered to apply for an award (as in the Punjab) and a society's claim, as recommended by the Maclagan Committee, should be converted to a first charge, but only when a society provides full credit facilities including the liquidation of a member's outside debts. Further, in respect of advances for the purchase of cattle, etc., such societies should have a first charge not only against the cattle purchased, but against the agricultural produce as well. The transfer of holding to a sub-lessee should also be impossible without the consent of the society. Attachment of property before the award is actually obtained should also be permitted so as to prevent dishonest transfers, as soon as arbitration is applied for (paras. 297-298).	We do not approve the formation of societies confined to persons of particular status. We do not also approve of the condition mentioned in the recommendation for the creation of first charge. The other recommendations are supported and some of them are dealt with in our report (paras. 155 and 165).
214	Efforts should be made to encourage conscious savings in years of plenty for use in times of scarcity (paras. 299-300).	We agree with these recommendations.
215	When crops are bad, postponement should be given as soon as possible and not delayed till the demands have fallen due (para. 301).	
216	To ensure that loans be made promptly, the existing procedure in connection with the advance of loans to societies by central banks should be simplified. But the difficulty of distance is a serious one. The post offices can facilitate the remittance of funds by foregoing the whole of the money-order fees instead of only three-fourths as at present and by permitting the opening of current accounts and their free transfer from a head post office to any of its branches. But the best solution would be the formation of money-lenders' co-operative societies, lending to primary societies in the neighbourhood and not to individuals (para. 302, also 475).	The recommendation is not approved.
217	The co-operators should carefully study the village moneylender and his methods and utilise his knowledge and experience to the best advantage (para. 303, also 474).	No remarks.

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	CO-OPERATION—*contd.*	
	UNITED PROVINCES—*contd.*	
218	As an experimental measure, societies for the purchase of agricultural requisites and the sale of agricultural produce should be started in one or two selected areas and aim at the inclusion of the village *bania*. After individual societies have acquired sound business methods they can combine into a central organisation and arrange for group marketing through a local expert (para. 304).	The recommendation is supported (para. 171).
219	At the same time co-operative societies of small traders should be formed (para. 305).	The recommendation is supported, but sectional or caste societies are not recommended (para. 317).
220	In order to enable co-operative banks to get into closer touch with the money market a provincial co-operative bank should be established (para. 308).	This recommendation is supported and is dealt with in our report (para. 158).
221	The law relating to audit should be suitably amended so as to empower the auditors to correct balance-sheets and permit their publication only when they are certified to be correct; to enforce other audit suggestions and provide for the appointment of a committee of enquiry in serious cases; to hold the bank managers and directors personally liable for any losses caused through their neglect or imprudence; to include sections 50-A and 60 of the Bombay Act, which deal with wilful neglect and the wilful furnishing of false information by a society, officer or members; to require the employment by banks of staff licensed by the provincial bank (para. 309).	These are matters for the Provincial Government to consider and they may usefully consult the Bombay and Burma Co-operative Acts. The licensing of staff by the provincial bank is not approved.
222	The provincial bank must have the services of a banking expert as its general manager who should give advice both to banks and the department on all technical financial matters (para. 310).	We commend this suggestion to the consideration of the authorities of the provincial bank (para. 159).
223	To encourage thrift special societies must be formed and the co-operative banks should give them special terms and facilities. The latter should encourage saving directly by offering attractive terms for fixed deposits and additions to them, however small (para. 313).	This recommendation is supported.
224	Co-operative banks should maintain small cash balances and invest their surplus money. Reserve funds should not be pledged save in exceptional circumstances to meet a special emergency and for a limited period. Provision should be made for bad debts and the balance-sheets should reveal the real condition to the public (para. 314).	Reserve funds of central banks are required to be invested with the Provincial Bank. The creation of a bad debt fund is recommended. The proposal regarding balance sheets is sound (para. 157).

225	All the income of a co-operative society should be exempt from income-tax (para. 315).	This is dealt with in our report (paras. 195 and 196).
226	Other concessions suggested are the following, of which the last is most important:— (1) the debentures of provincial banks should be included in the list of trustee securities;	There should be a separate land mortgage corporation for issue of debentures (para. 222).
227	(2) the Court of Wards and District and Municipal Boards should be permitted to deposit their money in co-operative banks;	These recommendations are supported and are matters for the Provincial Government.
228	(3) the co-operative societies should be exempted from court-fees as they are from stamp duties;	
229	(4) the present restrictions against the advancing of *takavi* to co-operative societies should be removed and *takavi* should be given to or through them whenever practicable (paras. 316-317).	This is dealt with in our report (para. 245).
230	*Tibetan trade.*—If the Bhotias could be organised under the co-operative system, they would have no difficulty in obtaining cheap and sufficient credit (para. 551).	We commend it for the consideration of the Provincial Government.

INDIGENOUS BANKERS.

ASSAM.

1	No steps should be taken to enforce publicity of accounts in the case of indigenous bankers or to impose any sort of Government supervision over them. At the same time it is in the interests both of the indigenous banker and of depositors that this business should be conducted in all its aspects on safe and sound lines (para. 194).	This is dealt with in our report (paras. 139-146).
2	It is in the interests of the Marwari banker to be less conservative and not keep apart from modern developments in banking (para. 193).	No remarks.
3	Sound banking must begin not at the top but at the bottom with a radical improvement of the mental and moral outlook of the cultivator making it possible for him to offer better security so that he can get accommodation from the *Mahajan* on more reasonable terms. This may lead to the creation of small indigenous paper or sound commercial bills which may be readily discounted and re-discounted forming the basis of a real money market in which the indigenous banker would form a real link in the chain (para. 196).	Warehouse receipts and the documents against produce stored in godowns can alone create bills.

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	INDIGENOUS BANKERS—*contd.*	
	BENGAL.	
4	To interfere with the court's discretion in the matter of awards of interest or allowing repayments by instalments in suits instituted by the indigenous bankers would not be proper (para. 396).	This recommendation is accepted.
5	The privileges of the Banker's Books Evidence Act, 1891, should not be extended to the indigenous bankers unless they satisfy the authorities that their books are properly maintained (para. 396).	This is dealt with in our report (para. 142).
6	We approve of the proposals made by some indigenous bankers that the Imperial Bank should allow cash credits to indigenous bankers against promissory notes, and should agree to discount or rediscount trade bills of all indigenous bankers, but we are unable to make any recommendations relating thereto, as it rests with the Imperial Bank to extend its facilities for the benefit of the indigenous bankers under such conditions as appear to them to be necessary (para. 396).	This is dealt with in our report (paras. 142 and 144).
7	For the purpose of expansion and development of the business of the indigenous bankers and for linking them up with the organised money market it is necessary to license and register them. To avoid opposition, legislation may at first provide for voluntary registration only, and provision may be made in the Act for the bestowal, on the registered indigenous bankers, of special privileges, such as the benefit of the Banker's Books Evidence Act and recognition as "Banker" within the meaning of the Negotiable Instruments Act and the Indian Contract Act (para. 398).	This is dealt with in our report (para. 139).
8	The publicity of their accounts will increase popularity, induce confidence and help the expansion of their business, but there will be a strong opposition to any proposal in this behalf. Hence to disarm opposition the provision for submission of periodical balance sheets should be made applicable only to the voluntarily registered indigenous bankers (para. 399).	This is dealt with in our report (para. 146).
9	The registered bankers should issue Pass Books to their depositors and grant receipts in proper forms acknowledging repayments, either in full or in part, of the loan (para. 400).	
10	It is not feasible to device measures to make the position of the indigenous bankers approximate more and more to that of the London bill brokers until	

	bill markets are developed in the various trade centres. The Banker's Bank should make a systematic attempt to foster bill business in the country (para. 401).	
11	The position of indigenous bankers should be improved and their status raised so that they can command public confidence and can tap and mobilise the innumerable small resources for investment which cannot be done by any other agency (para. 487).	We doubt whether any practical action in this matter is either desirable or feasible.
	BIHAR AND ORISSA.	
12	*Shroffs, i.e.,* urban indigenous bankers of good standing, should be placed on the approved list of financial agencies entitled to the privileges of a member bank in the Reserve Bank scheme to enable them to discount commercial bills more freely (paras. 152, 160, 194, 211, 420-424).	This is dealt with in our report (para. 140).
	BOMBAY.	
13	The complaint made by indigenous bankers that since the amalgamation of the Presidency Banks the accommodation allowed to them by the Imperial Bank has been curtailed should be examined. Business with the *shroffs* should be increased by an extension of rediscount business and by advances against stocks (para. 264).	This is dealt with in our report (para. 144).
14	The Central Committee may investigate the complaint made by the local *shroffs* that before the amalgamation of the three Presidency Banks, the Bombay Presidency enjoyed the advantage of lower rates of interest due to the commercial development of the Presidency and its developed banking resources, whereas the Imperial Bank now puts up the rate of interest so as to secure uniformity with the rates prevailing in other commercially less advanced provinces (para. 264).	The price of money having been brought to a uniform standard by the efficient organization of the Imperial Bank it would be a retrograde step to go back to different rates at different centres.
15	The Imperial Bank of India should consider the suggestion that *shroffs* of approved standing and financial position should be given the same credit facilities as are extended to certain firms on hypothecation of goods (para. 264).	There is some misapprehension in regard to this recommendation. The Imperial Bank only give credit facilities to joint-stock concerns on hypothecation of goods and then only as collateral security. The Imperial Bank gives clean credit within certain limits to indigenous bankers.

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	INDIGENOUS BANKERS—*contd.*	
	BOMBAY—*contd.*	
16	With a view to bridging the gulf now separating the branches of the Imperial Bank of India from indigenous bankers, local advisory committees should be appointed at important centres where the Imperial Bank has its branches. The constitution of such committees should be such as to assure *shroffs* that their applications for financial accommodation would receive due consideration (para. 264).	This is dealt with in our report (para. 396).
17	With a view to recognising, preserving and developing the indigenous system of banking and adapting it to present day conditions so as to make it a part of the national credit system, *shroffs* should be linked with the central banking institution as its agents. The agency scheme should be introduced tentatively at selected places where there is no organised bank, and the *shroff* nominated as the agent of the central banking institution should receive funds from it to be employed by him at his own risk in making advances within sanctioned limits and subject to such general conditions as may be prescribed by the Bank. In the selection of agents a syndicate of *shroffs* should be given preference to a single *shroff* or a firm of *shroffs* (para. 265).	This is dealt with in our report (paras. 137 and 142).
18	No legislation need be undertaken for the regulation of the business of *shroffs* (para. 266).	This is dealt with in our report (para. 139.)
19	There should be indigenous bankers' associations at important centres and they should be recognised by Government and the central banking institution of the country (para. 267).	We have recommended an all-India Bankers' Association of all banks, including indigenous bankers. There is no objection to the formation of local indigenous bankers' associations, if necessary (para. 620).
	BURMA.	
20	Those chettiars who accept deposits payable on demand should make provision for liquid resources in some way less likely than their present methods to become useless in a crisis (para. 518).	This recommendation is supported. Compulsion by legislation is not however recommended.

21	Chettiars should make stricter enquiry into the title of agricultural land mortgaged to them and should be more strict in collecting the land revenue receipts every year and retain them till the loan is repaid (paras. 521, 523).	No remarks.
22	The Commissioner of Income-tax should take steps to ensure early return of account books borrowed by income-tax officers from chettiars for checking the accounts (para. 554).	
23	The income-tax of chettiars should be collected when repayments are being received and should possibly be collected in two or more instalments (para. 555).	
24	The Income-tax Department and the Nattukkottai Chettiars Association should endeavour to work out jointly a more satisfactory system for the assessment of chettiars, and Government should place a suitable officer on special duty for the purpose (para. 558).	
	MADRAS.	
25	Indigenous bankers should be registered with authority to call themselves bankers (para. 503).	These are dealt with in our report (paras. 138-146).
26	Registration as a banker should be optional (para. 503).	
27	It should be permitted only for those who do only banking business (para. 503).	
28	Those registered would be required to file a balance sheet prepared by a certified auditor annually (para. 503).	
29	The 'banker' should be given the benefit of the Bankers' Testimony Act (para. 503).	This is dealt with in our report (para. 142).
30	He should also be given any concessions practicable with regard to a reserve bank or central banking institution if formed (para. 503).	This is dealt with in our report (paras. 140-146).
	PUNJAB	
31	If and when a Reserve Bank comes into being, the indigenous banker should not be forgotten in determining its constitution, scope and powers (para. 193).	This is dealt with in our report (paras. 140 and 142).
	UNITED PROVINCES.	
32	Efforts should be made to *mend* and not *end* the indigenous bankers. The following lines of advance are open and it is for the bankers to decide by which road and at what speed they will move (para. 459):— (1) The transformation of indigenous bankers into private limited companies (para. 460).	This is dealt with in our report (paras. 140-146).

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	INDIGENOUS BANKERS—*contd.*	
	UNITED PROVINCES—*contd.*	
	(2) The amalgamation of the business of local indigenous bankers into joint-stock banks (para. 461). (3) The establishment of what are known in Germany as "Kommandit" principle banks (paras. 461-463). (4) The appointment of indigenous bankers as agents of joint-stock banks or of the Reserve Bank (paras. 464-465). (5) The formation of a co-operative bank of indigenous bankers (para. 466) (6) The adoption of bill broking as an integral part of the indigenous banker business (para. 467). (7) The re-organisation of indigenous bankers on modern lines (paras. 468-471).	These are dealt with in our report (paras. 140-146).
33	The central bank should be empowered to accommodate indigenous bankers by discounting their *hundis* either (1) at the same rate as the joint-stock banks, if they keep a minimum current account with the central bank, or (2) at a slightly higher rate if they do not (para. 479).	This is dealt with in our report. We are not in favour of two different rates for re-discount facilities as suggested (para. 140).
	MONEYLENDERS.	
	ASSAM.	
1	No concession should be given to moneylenders as a class for summary realisation of their dues. Local influence must be relied upon to induce them to make deposits in co-operative institutions. There should be no legislation compelling moneylenders to give publicity to their accounts (para. 200).	This is dealt with in our report (para. 123).
	BENGAL.	
2	If the moneylender by his own act piles up compound interest at such a pace as would make the result after a few years oppressive and unconscionable, relief under the Usurious Loans Act would certainly be justifiable (para. 311).	No remarks.

3	It is quite clear from the Usurious Loans Act that the defendant's presence is not necessary and the suits can be decided *ex parte*. The misapprehension in the minds of some judicial officers in this respect can only be dispelled by a clear and explicit provision in the Act (para. 312).	We agree.
4	It is essential for the enforcement of any regulation against moneylenders that they should be licensed and their names and addresses should be registered (para. 320).	We do not support this recommendation (para. 122).
5	The Committee recommend legislation for the registration of professional moneylenders only and not for casual moneylenders (para. 320).	
6	Although other countries have fixed maximum rates of interest for all cases, it would not be right in the present condition of our country to do so in the case of unsecured loans. The Usurious Loans Act might be left to check abuses in case of these loans (para. 321).	This is dealt with in our report (para. 116).
7	Secured loans stand on a different footing, and in case of such loans the maximum rates should be fixed according to the special circumstances of each province and, if necessary, for different parts of the same province, and of the different classes of borrowers such as agriculturists and non-agriculturists (para. 321).	We do not agree.
8	Legislation limiting the total accrual of interest to the amount of the principal originally lent is recommended (para. 322).	This is not practicable (para. 116).
9	If the maximum rate of interest as well as the maximum amount of interest are fixed, reduction of the existing periods of limitation will not be necessary (para.. 323).	This does not arise in view of our recommendations against the two preceding items.
10	The cumulative effect of compound interest is not easily realised. The time has come when legislative measures should be adopted to save the borrowers from the consequences of compound interest. Provisions similar to those of section 7 of the English Moneylenders' Act of 1927 should be enacted in India (para. 324).	This is dealt with in our report (para. 116).
11	To give protection to the borrowers who have taken unsecured loans, it should be provided, on the lines of section 10 of the English Moneylenders' Act, that any rate in excess of 48 per cent. shall be presumed by the courts to be "excessive" within the meaning of the Usurious Loans Act, though a lower rate also may be found to be so (para. 325).	This is not supported.
12	To stop the evil of alluring advertisements by moneylenders, provisions similar to those under section 5 of the English Moneylenders' Act should be enacted (para. 326).	We have recommended generally legislation on the lines of the English Act (para. 122).

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	MONEYLENDERS—*contd.*	
	BENGAL—*contd.*	
13	The moneylenders should be bound, on reasonable demand being made and on payment of a small fee, to supply the debtors with all information as to his debt. A certified copy of the bond or of the account of the debtor in the creditor's books must also be supplied, when similarly demanded, on payment of a fee. The legislation should closely conform to the terms of section 8 of the English Moneylenders' Act (para. 327).	These are dealt with in our report (para. 122).
14	Such impositions, as *gadi salami*, should be stopped on the lines of section 12 of the said Act (para. 328).	
15	False, deceptive or misleading representation by a moneylender should be made punishable, as in section 4 of the English Act (para. 329).	We have recommended generally legislation on the lines of the English Act.
16	Habitual usury should be made a criminal offence (para. 330)	This is not practicable.
17	Possible evasion of the proposed legislation should not deter the legislature from enacting a just and necessary measure. Such an Act should tend to educate and strengthen public opinion (para. 331).	No remarks.
18	The solution of the problem of usury lies in the establishment of suitable credit institutions like co-operative societies, and in adequately increasing the banking resources of the province (para. 419).	This is dealt with in our report (para. 122.)
	BIHAR AND ORISSA.	
19	A class of registered rural *mahajans* should be brought into being to supply short-term credit to landlords and substantial cultivators as well as to finance trade in agricultural products (paras. 410-419).	We are not in favour of compulsory or optional registration of moneylenders. Please see our recommendations (paras. 122 and 123).
20	The best of the rural moneylenders should be induced to become "registered mahajans" by giving them special facilities for recovery of debts, for getting their paper discounted and for remittance, and their acceptance of agricultural bills of not more than six months' usance should be treated as acceptance by a bank under section 14 of the Reserve Bank Bill (paras. 152, 160, 209, 211, 410-419).	
21	The High Court should be empowered under the Usurious Loans Act to fix for	This recommendation is not supported.

	localities rates of interest, above which claims should be presumed by subordinate courts to be usurious in absence of special circumstances (para. 353).	
22	Compound interest on loans in kind should be declared to be usurious (para. 353)	This recommendation is supported.
23	Itinerant moneylenders such as Kabulis and Gossains convicted of offences committed in the prosecution of their business should be liable to deportation (para. 355).	This recommendation is supported (para. 123).
24	It should be made clearer that the judges should use the Usurious Loans Act at their discretion (paras. 365-373).	No remarks.
25	It is not practicable to limit the rate of interest by law so as to make it applicable in all cases (para. 366).	We agree.
	BOMBAY.	
26	It would be to the interests of everybody concerned if some kind of co-ordination can be arranged between the *sowcar* and the co-operative societies (para. 94).	This is dealt with in our report (para. 123).
27	The licensing of moneylenders is not practicable and is not therefore recommended (para. 242).	We agree (para. 122).
28	Creditors should be compelled to keep regular accounts of all transactions with their debtors and to furnish every six months a statement showing the balance outstanding and all transactions entered into during the six months to which the statement relates (para. 243).	This is dealt with in our report (para. 116).
29	Moneylenders need not be licensed, but there should be legal provisions for the regulation of their accounts, as suggested in Chapter XII (para. 283).	This is dealt with in our report (para. 122).
30	Where complaints about oppression by Pathan moneylenders are common and no proceedings can be taken against them under the ordinary law, Government should take action under section 3 of the Foreigners' Act or under some special legislation and deport such of them as are found to be a menace to society (para. 284).	This is dealt with in our report (para. 123).
	BURMA.	
31	The Usurious Loans Act, 1918, should be amended as proposed (para. 699) . .	This recommendation is not supported (para. 116).
32	Steps should be taken to bring the Usurious Loans Act and its amendment to the notice of the public (para. 701).	No remarks.
33	The inclusion in the annual Civil Justice Reports of a special report upon the working of the Usurious Loans Act should be reconsidered (para. 702).	This recommendation is supported (para. 116).
34	Judicial officers should be more fully instructed to appreciate the meaning of the term interest in the Usurious Loans Act (para. 703).	No remarks.
35	An act on the lines suggested to control professional moneylenders should be passed and applied to Rangoon (paras. 704 to 708).	The recommendation is not supported.

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	MONEYLENDERS—*contd.*	
	CENTRAL AREAS.	
36	In order to improve these conditions, it is suggested that a class of licensed village moneylenders should be created on some such conditions as the following:—	
	(1) Every licensed moneylender shall either keep accounts in the form prescribed by the licensing authority and have them audited at intervals of not more than 2 years by a qualified auditor or a person on the approved list, sanctioned by the licensing authority, and shall, on demand by the borrower, furnish him with a statement of accounts from the date of the last statement not oftener than once in six months or agree to make payments to all his debtors through the post office, or a joint stock bank, or a co-operative central bank or a licensed indigenous *shroff* notified by the licensing board, and receive all payments from his debtors through the same agency.	
	(2) All crop loans granted by a licensed moneylender to persons other than members of co-operative societies within the limit notified in each case by the Department of Agriculture from time to time shall be recoverable as a charge upon the crop at the next harvest, or in case of remission or suspension of land revenue by Government, at the harvest next after that, provided that he charges interest at a rate lower than the lending rate of the nearest co-operative society; and shall be subject to protection similar to that afforded in section II of the English Agriculturists' Credit Act, 1928, to a charge in favour of an approved bank, so that if, with intent to defraud, any farmer who has taken a crop loan fails to comply with the obligations imposed or removes or suffers to be removed from his holding the property subject to the charge, he shall be liable to imprisonment for three months.	
	(3) In transactions, other than crop loan the licensed moneylender will be entitled to be awarded by law courts the stipulated rate of interest from	The system of licensing moneylenders is not approved

the date of the transaction to the date of the actual realisation of his dues subject to the conditions:—

(*a*) that the court shall declare the decree as satisfied in full when the licensed moneylender has actually realised his principal and interest at 12 per cent. per annum on mortgage debt and 18 per cent. per annum on unsecured debt from the date of the transaction,

(*b*) that no evidence of payment by the judgment debtor after the decree shall be admissible in execution proceedings against the licensed moneylender except when payment is made through the court within the period of limitation, or through the post office on a special form for payment of decretal amount drawn up so as to show the minimum necessary particulars or by cheque on registered bank, or through the *vakil* of the party to whom payment is made.

(4) All debts of the licensed moneylender shall have priority in the matter of repayment to any subsequent loans from other creditors whether on mortgage security or otherwise.

(5) The licensed moneylender shall have the right to object to the award by the Registrar of Co-operative Societies on the ground that he has given notice to the co-operative credit society of the amount owned by the borrower to him, and on such an allegation being proved, the court shall not give any priority in that matter of execution to the award of the Registrar over the previous debts of the licensed *mahajan*.

(6) No co-operative society shall admit a debtor of a licensed *mahajan* to its membership, except on probation, and shall not advance him any sum of money as a loan except after arranging for the repayment of the licensed *mahajan's* dues in instalments within the period of probation, and shall expel him from the society in case he makes any default in payment of the instalments fixed (para. 89).

37 (1) The licensing authority shall be constituted as follows:—

(*i*) A revenue officer not below the rank of a Tehsildar, nominated by the Local Government for each Tehsil—Chairman.

(*ii*) The Khan of the village in the North-West Frontier Province, or a *lambardar* of the village who is not indebted to the licensed *mahajan* nominated by the local Government.

(*iii*) A zemindar who is not a member of the co-operative credit society—elected by the *zemindars* of the village from among persons who are not indebted to the licensed moneylender.

(*iv*) An elected representative of the licensed moneylenders of the province.

In view of our recommendations against the system of licensing moneylenders this recommendation does not require consideration.

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	MONEYLENDERS—*contd.*	
	CENTRAL AREAS—*contd.*	
	(*v*) An indigenous *shroff*, elected by the Association of Indigenous Shroffs, if any, or in the absence of any such association, nominated by the local Government. (2) The licensing authority shall grant a license to every moneylender who agrees to abide by these conditions and should have no discretion to refuse it. (3) The licensing authority shall have no authority to cancel a license so long as the licensed moneylender complies with the conditions laid down in section (1). (4) In the event of his violating any of these conditions, his license shall be cancelled after a warning in the first instance (para. 90).	In view of our recommendations against the system of licensing moneylenders this recommendation does not require consideration.
38	The Co-operative Department and the Board of Economic Enquiry which the Committee have recommended should take up further investigations of the system of *rahti* loans at an early date (para. 92).	This recommendation is supported.
39	The following restrictions should be imposed on every foreign moneylender:— He shall— (*a*) keep a certain amount fixed by the licensing authority, as a deposit in an approved institution; and (*b*) sign an agreement that he shall conduct his business in accordance with the rules laid down by the licensing authority and shall not charge directly or indirectly rates of interest higher than those sanctioned by the licensing authority in this behalf. (*c*) In case the licensing authority receives any report that the licensed foreign moneylender has been acting contrary to the regulations laid down in this behalf, or recovering his money in a high-handed fashion, it should have all the powers of a law court to investigate the charges and punish the licensee up to 3 months' imprisonment in the first instance and six months in the next (para. 92).	This is dealt with in our report (para. 122).

40	The real defects in the Usurious Loans Act are incurable unless a body of licensed moneylenders and an association of indigenous shroffs, who shall get their accounts audited and who should be free from interference by the law courts in the matter of rate of interest, except at the time when repayments are actually made, are set up on the lines suggested (para. 179).	This recommendation is not supported.
	CENTRAL PROVINCES.	
41	There is need for the controlling of moneylenders by regulation and licence (paras. 1677 and 1678).	This recommendation is not supported. Please see our recommendations (para. 122).
	COORG.	
42	Fuller use should be made of the Usurious Loans Act (para. 121) . . .	This is dealt with in our report (para. 116).
	MADRAS.	
43	It should be optional to a moneylender to register or take out a license stating his trade name, style or *vilasam* and his address (para. 480).	Licensing of moneylenders is not supported. Please see our recommendations (paras. 122 and 123).
44	Registered moneylenders should supply statements of accounts on demand but in no case less than once in a year to any debtor (para. 480).	
	PUNJAB.	
45	The licensing of moneylenders is not recommended (para. 217)	This is dealt with in our report (para. 122).

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	MONEYLENDERS—*contd.*	
	UNITED PROVINCES.	
46	Efforts should also be made to regulate the moneylenders' operations and safeguard the interests of their clients; to do away with the moneylender is impossible (para. 473).	This is dealt with in our report (para. 122).
47	Moneylenders should be induced to join co-operative societies on condition that they cease lending privately to the members of such societies (para. 474, also 303).	This is dealt with in our report (para. 123).
48	Experiment may be tried of the formation of co-operative societies of moneylenders which should lend to the primary societies and not to individuals (para. 475, also 302).	It is doubtful if this is practicable (para. 123).
49	Legislation on the lines of the Punjab Regulation of Accounts Act is designed to prevent the preparation of irregular or dishonest accounts, but such accounts in the province are rare and in the existing circumstances of illiteracy, etc., the legislation seems of doubtful value (para. 477).	This is dealt with in our report (para. 122).
50	The village moneylender himself requires education. With the competition of new credit agencies as proposed elsewhere he is bound to mend his ways (para. 478).	No remarks.
	LAND IMPROVEMENT AND AGRICULTURISTS' LOANS ACTS.	
	ASSAM.	
1	Agricultural Department officers should advise on the necessity for loans and on their proper utilisation. In case of misapplication the loans should be promptly recalled (para. 59).	This recommendation is supported.

2	For permanent improvements to land, the facilities afforded by the Land Improvement Loans Act and land mortgage banks are sufficient. It would be premature to use Land Mortgage Banks as an agency for distributing the loans under the Act (para. 62).	This is dealt with in our report (paras. 241 and 245).
3	Government should depute officers to advise on the feasibility of constructing channels for the introduction of silt and loans might be given to groups of villagers to carry out the work (para. 62).	This is a matter for the Provincial Government to decide. The Provincial Government have admitted.
4	Loans might be granted for permanent fencing to protect cold weather crops from cattle (para. 62).	This is a matter for the Provincial Government who doubt if the proposal is practicable. We, however, feel that the matter should be more fully explored.
5	Government should give publicity to section 9 of the Act (para. 83) . . .	The recommendation is supported.
6	As is the policy at present, loans should only be given in certain contingencies such as destruction of crops by floods or a spell of drought or for the purchase of cattle in the case of an epidemic (para. 84).	This is dealt with in our report (para. 242).
7	When loans are given on occasions of widespread calamity, detailed enquiries as to the needs of each individual are not practicable and loans must necessarily be given in comparatively large groups. Where, however, the urgency is less pressing, detailed enquiry is advisable and the formation of smaller groups. Distributing officers should be on the lookout for exactions by headmen and others (para. 84).	These recommendations are supported and have been accepted by the Provincial Government. Some of them are dealt with in our report (paras. 240 to 242).
8	Loans for purchase of cattle should be sufficient for the purpose without the cultivator having to borrow from other sources (para. 85).	
9	Every attempt should be made to realise from each individual his own share. Joint liability should only be enforced as a last resort and then should be apportioned as fairly as possible among all the borrowers in the group (para. 86).	
10	Realisations must be strictly enforced where the borrower is able to pay and extensions should only be granted sparingly. Full use should be made when occasion demands of the Assam rules 15 and 17 for suspension and remission. Dates of repayment should be fixed with due regard to the times of harvest. For cattle loans repayment should be in two years in two *kists* (para. 86).	
11	Loans should be given, even in more or less restricted localities, where the crop has failed for two or three successive years and cattle loans should be liberally given even for specific villages in cases where there has been heavy cattle mortality. The whole loan should be realised at once if cattle have not been purchased or if the loan has been misused (para. 87).	This recommendation is supported and has been accepted by the Provincial Government.

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	LAND IMPROVEMENT AND AGRICULTURISTS' LOANS ACTS—*contd.*	
	ASSAM—*contd.*	
12	Loans for immigrants who have newly come to Assam are not recommended (para. 87).	This is a matter for the Provincial Government.
13	Government should give publicity to Assam rule 26 (para. 87)	This recommendation is supported and has been accepted by the Provincial Government.
14	In cases where new crops are tried, the Agricultural Department might give seed on credit on condition of repayment after harvest. In times of distress seeds could be distributed through rural societies or sold on credit to individuals by the Agricultural Department on joint bonds which could be made over to the revenue authorities for realisation. For improved plant in *gur*-making, loans might be granted under rule 26, framed under the Agriculturists' Loans Act. Though little capital is required for rearing of the *muga* worm, small grants might be made by the Department of Industries in genuine cases. It is desirable to start more milk societies in the province with the assistance of Government grants on low interest. Nepali dairy business might receive similar assistance (para. 117).	This is for the consideration of the Provincial Government who have the matter already in hand. The recommendation is supported.
	BIHAR AND ORISSA.	
15	Local officers should take the initiative in furthering schemes for which loans under the Land Improvement Loans Act can be given. Liability may be split up into groups, and vexatious delays in conducting enquiries reduced (para. 63).	These recommendations are supported. Please also see paras. 240 and 241 of our report.
16	Loans under the Agriculturists' Loans Act may be given on a more liberal acreage rate. The period of repayment may be normally placed at two years. The Act may be extended to cover loans for replacement of brood lac (paras. 64—70).	
	BOMBAY.	
17	The *takavi* policy should be liberalised, and, besides the tracts mentioned above, Government should advance *takavi* in places where the co-operative movement has not made much progress (para. 93).	This is dealt with in our report (paras. 240 and 241).

18	The Government of India should place at the disposal of the local Government a part of the money raised through post office savings bank, for being advanced to co-operative societies, or as *takavi* to individuals, at a rate of interest not much higher than that allowed to the depositor (para. 94).	This recommendation is not supported.
19	(*i*) In famine tracts, some amount out of the *takavi* grant or from the Famine Insurance Fund should be placed at the disposal of the co-operative societies for being advanced to suitable agriculturists; and finance should be arranged for a cycle of years consisting of a normal period of good, bad and indifferent years (para. 95).	This is dealt with in our report (para. 245).
20	(*ii*) In such areas, the question is not merely one of finance. What is needed is the conservation of moisture by dry farming and other land improvements (para. 95).	No remarks.
21	Government should maintain separate accounts in every district for the loans advanced under the Agriculturists' Loans Act and the Land Improvement Loans Act (para. 106).	This recommendation is supported.
22	A definite policy should be adopted in all districts, especially those liable to drought, to use the machinery of the Land Improvement Loans Act for agricultural improvement and famine protection, as is being done at present in Bijapur (para. 107).	This is dealt with in our report (para. 241).
23	The scheme of advances under the Land Improvement Loans Act through the agency of the co-operative movement has been only partially successful. In order to make it more successful, it is suggested that, in each district, where co-operation has made progress, there should be some officer of the Co-operative Department, who has undergone training in the elements of agriculture and engineering practice, to examine the applications and also to watch over the proper use of the advances made. Where there are *taluka* development associations with a qualified staff, the services of the staff should be utilised by the Co-operative Department for this purpose (paras. 108 and 109).	This is dealt with in our report (paras. 244 and 245).
24	An investigation should be made in every district, into the natural sources available for protection of land from famine. Active propaganda should be undertaken in all districts to place before the agricultural population the advantages of going in for land improvement, the schemes of land improvement capable of being undertaken in various tracts and the facilities that are available for long-term credit (para. 109).	This recommendation is supported, and is dealt with in our report (para. 241).

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	LAND IMPROVEMENT AND AGRICULTURISTS' LOANS ACTS—*contd.*	
	BURMA.	
25	In regions in which credit is generally available in the ordinary form through banks, co-operative societies, Chettiars or other private lenders, Government's advances under the Agriculturists' Loans Act should be restricted to assistance in cases of widespread distress (para. 145).	This is dealt with in our report. Distress may be local not necessarily wide-spread (para. 242).
26	Mortgaged land should not be refused as security for a loan under the Land Improvement Loans Act, but Government should take a mortgage of such land with the priority conferred by section 7 of the Act, the rights of existing mortgagees being properly safeguarded by better arrangements for publishing and serving notices under section 5 (para. 189).	This is reasonable and is a matter for the Provincial Government.
27	The Burma Land Improvement Rules should be redrafted and the policy on which they are based should be fully explained in the departmental directions (para. 191).	This recommendation is supported and is a matter for the Provincial Government to consider.
28	After that, fresh efforts should be made to bring the facilities to the knowledge of cultivators (para. 191).	This recommendation is supported and is a matter for the Provincial Government to consider.
	CENTRAL AREAS.	
29	The existing practice regarding grant of *takavi* under the Agriculturists' Loans Act in times of scarcity should be continued; and co-operative societies and licensed *mahajans* should be helped to repay crop loans to the Imperial Bank of India in certain circumstances (para. 236).	The first part of the recommendation regarding the continuance of the existing practice is supported. We are not in favour of licensing the *mahajans*. We have dealt with the facilities required by the co-operative movement in our report (paras. 190-196 and 242.)
30	For the better administration of the Land Improvement Loans Act, periodical examination of each village should be made by an agricultural expert, and a ten years' programme of improvements that are economically justified should be drawn up, which should be carried out by the Agricultural Department or the owner of the land from funds obtained either from Government or a land mortgage bank (para. 236).	This recommendation is supported and is for the consideration of the Local Government. This is also dealt with in our report (para. 241).

	CENTRAL PROVINCES.	
31	Although the existing credit facilities for short-term and intermediate loans are adequate for present requirements, the need for some extension of Government's agricultural loan operations in the backward tracts of the province, particularly in the ryotwari estates is stressed (paras. 890 and 1013).	This is a matter for the Provincial Government and is dealt with in our report para. 241).
32	A careful investigation should be carried out to determine the tracts in which Government *takavi* operations should be extended (para. 1025).	These are matters for the consideration of the Provincial Government. Please see also para. 242 of our report.
33	There is need for an extension of *takavi* operations in the ryotwari villages (para. 1013).	
34	Government should not attempt to descend into the arena of general money-lending, or to compete with the existing credit agencies in those tracts, where the existing credit facilities for financing short-term and intermediate loans are found to be adequate (para. 1012).	
35	There is need for propaganda to familiarize the general rural public with the facilities under the Land Improvement Loans Act and to encourage land improvement particularly by the digging of wells for irrigation and intensive cultivation (paras. 903 and 915).	This recommendation is supported and is dealt with in our report (para. 241).
	MADRAS.	
36	Delay in granting *takavi* loans should be further reduced (para. 164) . . .	These recommendations are supported and are dealt with in our report (paras. 240-245).
37	In ordinary times it is not necessary to pass *takavi* loans through co-operative societies (para. 175).	
38	*Takavi* loans can be very usefully utilised in times of stress for special long-term finance of co-operative societies (para. 175).	
	PUNJAB.	
39	Loans under the Agriculturists' Loans Act should be restricted to times or cases of emergency and stress, and, so far as possible, all advances should be made under the personal supervision of an officer of the Indian or Provincial Civil Service (para. 44).	These recommendations are dealt with in our report (paras. 242, 244 and 245).
40	No loan should be made to co-operative societies as long as sufficient funds are available within the movement; nor should any loan be made by the Revenue staff to co-operators without the knowledge and consent of their society, and this consent should not be given if co-operative funds are available (para. 45).	

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	LAND IMPROVEMENT AND AGRICULTURISTS' LOANS ACTS—*contd.*	
	PUNJAB—*contd.*	
41	In certain areas the facilities available under the Land Improvement Loans Act of 1883 are not sufficiently known and might be made more widely known through the co-operative staff (para. 71).	These are dealt with in our report (paras. 240 and 241).
42	In certain districts delays in granting loans occur: so far as possible this should be avoided (para. 71).	
43	Special rules should be framed authorising the grant of loans for fruit growing (para. 72).	We commend the matter to the consideration of the Provincial Government.
	UNITED PROVINCES.	
44	The operation of the Agriculturists' Loans Act need not be confined to occasions of distress (para, 357).	This is dealt with in our report (para. 242).
	The administration of the Act can be freed from defects in the following ways:—	
45	Preliminary enquiries about the need of *takavi* loans should be conducted without avoidable delay by responsible officers and the recipients selected should, of course, be those whose need is greatest.	These recommendations are supported. The question of distribution of *takavi* loans through co-operative societies is dealt with in our report (para. 245). We have no objection to distribution through panchayats.
46	Distribution of *takavi* should be prompt and not delayed till the time for its profitable spending has passed.	
47	*Takavi* may best be distributed through co-operative societies, *panchayats* and failing both of them through the landlords.	
48	Recovery of *takavi* advanced in times of distress should invariably be effected not in one instalment but in two, the second of which should be a full year from the first (para. 358).	This recommendation is supported.
49	The Land Improvement Loans Act needs to be advertised, but if a land mortgage bank is instituted it should provide all the long-term credit that is required (para. 359).	This is dealt with in our report. A land mortgage bank will at the outset be granting loans for the repayment of old debts or redemption of mortgages (paras. 218 and 241).

MARKETING AND INTERNAL TRADE.

ASSAM.

1	Though marketing facilities are not inadequate, communications are defective in some districts, and Government should continue, so far as funds permit, to make liberal grants to local boards for the construction of minor and village roads and for the maintenance of existing roads, but local boards must assist by increasing their own funds by such forms of taxation as are within their power (para. 90).	This is dealt with in our report and has been accepted by the Provincial Government (para. 272).
2	If, in accordance with the suggestion of the Royal Commission on Agriculture, the Local Government make an enquiry into the possibility of standardisation of weights and measures, the question of having *a doon* of standard capacity should be considered (para. 91).	This is dealt with in our report and the Provincial Government have undertaken to consider the matter in due course (para. 272).
3	There are great abuses in the system of advances, and the remedy must be sought for in dispelling the ignorance of the cultivator, in teaching him to be more thrifty and hardworking, and in affording him facilities of finance on reasonable terms through rural societies (paras. 93 and 104).	This recommendation is supported and has been accepted by the Provincial Government.
4	Co-operative jute sale societies are not likely to be successful unless the advances which the members owe to the Marwaris are first cleared off. Only if the local people interested show their confidence in the society by subscribing a reasonable amount of share capital should Government consider the advisability of granting a loan. It is essential that someone with business experience and a knowledge of the jute trade should be in charge of such a society. It is desirable that such societies should be made a success if possible and the Government of Assam could gather information as to the progress made by similar societies in Bengal so as to determine what steps should be taken in Assam (para. 95).	This is dealt with in our report (paras. 292 and 295).
5	The question of licensed warehouses for Assam is premature (para. 96) . . .	The position should be reconsidered in connection with our general recommendations on the subject (para. 281).
6	Government might, by telegrams or bulletins, circulate the market price of jute (para. 97).	This might be considered by the marketing board which we have recommended.
7	Though the policy of sale societies for agricultural produce should be a cautious one, a well-considered scheme is worth trying as, if successful, it means much to the cultivator; but it is essential that the members should be loyal to the society (para. 97).	This is dealt with in our report (para. 275).

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	MARKETING AND INTERNAL TRADE—*contd.*	
	BENGAL.	
8	Diversity of weights and measures prevailing in different localities is another defect. This difficulty can be removed by standardizing the weight in all centres (para. 173).	This is dealt with in our report (para. 272).
9	The standards of jute should be made definite by some special legislation on the lines of the American Cotton Standards Act, and any difference arising between the buyers and the sellers should be settled by a statutory arbitration board composed of representatives of both the parties (para. 175).	This is dealt with in our report (para. 287).
10	The establishment of licensed warehouses is a real need for the improvement of the economic position of the agriculturist (para. 186).	This is dealt with in our report (para. 281).
11	It is, however, not absolutely necessary that they should be organised only on co-operative lines. There is no special reason why the establishment of warehouses by the agency of men qualified by training and experience to manage them should not be encouraged. In fact, the provision for credit and storing facilities are two separate functions which can very well be discharged by different agencies (para. 186).	This is dealt with in our report (paras. 280 and 281).
12	The establishment of warehouses should be undertaken, in the present condition of Bengal, preferably by private enterprise (para. 186).	
13	A scheme for training, examining, certifying and licensing measures and graders should be formulated by Government and brought into operation as soon as the Act is passed (para. 188).	The recommendation is supported.
14	The initial difficulty in establishing licensed warehouses will be minimised if the existing *aratdars* be prepared to make the necessary alterations to their existing warehouses and convert them into licensed warehouses (para. 187).	The suggestion is supported.
15	In places where no private enterprises will be forthcoming, licensed warehouses will have to be formed on a co-operative basis, the capital being raised by shares subscribed by the producers, and by loans from co-operative financing agencies (para. 187).	There is scope for co-operative warehouses along with private warehouses.
16	They should not be mixed up with the sale and supply societies, which should develop on independent lines (para. 187).	Co-operative sale societies may have their own warehouses or godowns.
17	It is necessary to legislate for the better organisation of markets (para. 189)	This is dealt with in our report (para. 272).

18	A properly organised futures market should be established by legislation (para. 190).	
19	The East India Jute Association, as it is constituted at present, does not satisfy the essentials of such a market, and the representation of agricultural interest in it is very remote (para. 190).	This is dealt with in our report (paras. 286 and 287).
20	For satisfactory carrying on of the internal trade of the province extensive credit facilities are required under the following categories:— (*i*) For goods stocked either in Calcutta or in mufassal before sale or despatch: establishment of licensed warehouses is the best way to secure credit. (*ii*) For goods despatched from mufassal to Calcutta during transit: accommodation can be obtained only if there are adequate banking facilities in the mufassal centres. (*iii*) For goods sold on credit: the best arrangement would be the introduction of trade acceptances (discussed in Chapter X). It will be a great improvement if in commercial debts and in transactions between wholesale and retail merchants the practice of drawing bills to be accepted by the debtor grows up (para. 203).	This is dealt with in our report (paras. 279 to 285).
21	For goods of slow consumption and high price, sale on credit is the only means by which the ordinary purchaser can buy. In Calcutta, though not in the mufassal, there is a vast scope for developing the system of hire-purchase or the instalment payment and particularly in offering to middle-class population facilities for acquiring houses and other tangible assets (para. 205).	No remarks.
22	A careful enquiry by experts must be made without any further delay before the department decides to continue or further extend the movement. They have vast possibilities if run on proper lines (para. 247).	The recommendation is supported.
23	The working of institutions like non-agricultural purchase and sale societies or co-operative stores ought to be in the hands of professional tradesmen and not amateurs (para. 255).	Paid managers of business capacity and experience are required, but the institution may be on a co-operative basis (para. 292).
24	The purchase and sale societies also require considerable amount of State aid in the experimental stage of their development. They are bound to suffer losses in the first years, if they have to pay the rate of interest that the Provincial Bank charges (para. 278).	The recommendation is supported, and is dealt with in our report (para. 293).
25	For such societies, specially the jute sale societies, liberal State loans should be given at the lowest possible rate of interest until they can accumulate sufficient reserves. For their block expenses on buildings and plants also liberal State grants or at least State loans without interest should be given. In case of jute sale societies State aid should not be given unless on the recommendation of the committee of experts already suggested (para. 278).	Loans at concessional rates of interest have been recommended by us (para. 280). The rest of the recommendation is for the Provincial Government to consider.

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	MARKETING AND INTERNAL TRADE—*contd.*	
	BENGAL—*contd.*	
26	The initial expenses incurred by purchase and sale societies should be paid off by Government, and the Registrar's Development Fund strengthened to such an extent that these experiments may be continued on a steadily increasing scale for a sufficient number of years (para. 278).	This is a matter for the Provincial Government.
	BIHAR AND ORISSA.	
27	Licensed warehouses should be established, whose receipts should serve as negotiable instruments of title to goods. Until private enterprise is forthcoming, these may be worked by the railways and by the co-operative and joint stock banks. Failing these Government should experiment (paras. 134—144).	This is dealt with in our report (para. 281).
	BOMBAY.	
28	For the improvement of marketing better means of communication and methods of transport are necessary. Difficulties about good and sufficient roads are serious in Sind and also, to some extent, in Gujerat (para. 139).	This is dealt with in our report (para. 272).
29	The question of giving to producers representation on the Board of the East India Cotton Association deserves consideration (para. 141).	This recommendation is supported.
30	Early provincial legislation seems necessary for standardisation of weights and measures (para. 145).	This is dealt with in our report (para. 272).
31	Co-operative sale societies in this province give promise of successful development. The suggestion to empower such societies to compel their members to sell their produce through them is not approved (para. 149).	Success depends on loyalty of members and on fair turnover. For this purpose, contracts and penalties are made a feature of all sale societies in other countries. If this is not practicable at present, it will have to be considered as the movement grows.

32	Co-operative sale societies should be given facilities for the construction of godowns in the shape of loans, at easy rates of interest, to be repaid by 10 or 20 annual instalments (para. 149).	These recommendations are supported, and are also dealt with in our report (paras. 272 and 280).
33	The Bombay Cotton Markets Act deserves to be applied to important centres of the Province at an early date (para. 150).	
34	Regulated markets should be established also for agricultural produce other than cotton (para. 150).	
35	Licensed warehouses should be introduced in a few important centres to begin with. Railway administrations may be asked to construct such warehouses at selected railway stations. It may be possible for local bodies and other organisations in some of the important centres to construct and maintain such warehouses (para. 151).	This recommendation is supported and is also dealt with in our report (paras. 281-283).
36	The agricultural producer does not, as a rule, require much finance for marketing. For those agriculturists who wish to hold their produce, facilities for finance are at present very inadequate. The best way of providing the necessary finance would be through co-operative sale organisations (para. 152).	This is dealt with in our report (para. 275).
37	Better warehousing facilities should be provided at important centres and there should be an organised credit system suited to the requirements of small traders (paras. 162-163).	These are dealt with in our report (para. 279).
38	There should be licensed warehouses in the interior of the country, warrants of which could freely be transferred and made over to banks as collateral security for loans (para. 162).	
39	The hire-purchase system should be extended to urban and rural areas, provided it does not result in the creation of a multiplicity of hire-purchase institutions giving facile credit on a profuse scale (para. 168).	No remarks.
	BURMA.	
40	A possibility of improvement in the marketing of paddy may be found in the development of sales by samples brought in by cultivators to a convenient centre where the present jungle broker might become a commission agent (para. 238). (*a*) Uniformity of grain should be encouraged (para. 239). (*b*) Co-operative societies should control their members with respect to the types of paddy grown and the use of selected seed and adulteration of the harvest (para. 239).	These recommendations are supported.

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	MARKETING AND INTERNAL TRADE—*contd.*	
	BURMA—*contd.*	
40A	The Agricultural Department should not be distracted from its field work to organise regulated markets for crops (para. 242).	The establishment of regulated markets is recommended in our report (para. 272). This should not interfere with the field work of the Agricultural Department.
41	The Labour Statistics Bureau should be enabled to publish index-numbers of prices in Rangoon for twenty years back on a broad basis and extend the series afterwards for each year as it passes (para. 776).	This matter should be looked into by the Board of Economic Enquiry which we have recommended (para. 73).
	CENTRAL AREAS.	
42	In view of the facilities already available for getting advances against stored produce, the majority of the Committee do not think it necessary to start co-operative loan and sale societies and unanimously reject the Egyptian system of loans to small producers on the security of produce (para. 138).	We agree.
	CENTRAL PROVINCES.	
43	The Central Provinces Weights and Measures Act should be enforced in all parts of the province and the sale of agricultural produce in future should be by weight and not by measurement (para. 1060).	The first part of the recommendation is dealt with in our report (para. 272).
44	It is not desirable at present to encourage cultivators to hold up for a rise in prices of those crops whose market is controlled by world factors (para. 1085).	The second part is not supported.
45	The introduction of the "Egyptian Cotton Scheme" is not recommended (para. 1085).	No remarks.
46	A law, on the lines of the Berar Cotton and Grain Markets Acts, should be introduced to control on similar lines all the wholesale markets of the Central Provinces (para. 1112).	We do not think the scheme will serve any useful purpose. This recommendation is approved and is dealt with in our report (para. 272).
47	Undesirable persons should not be licensed as dalals or brokers (para. 1105) . .	This recommendation is approved.

48	The appointment of a District Marketing Officer to ensure that the rules and regulations under the law are strictly and adequately enforced, is recommended (para. 1114).	We have recommended the appointment of expert marketing officers and the establishment of marketing boards. The question of issuing bulletins may be considered by the latter (paras. 272 and 284).
49	The issue of fortnightly bulletins of the general state of the market in rural areas is recommended (para. 1068).	
	COORG.	
51	Godowns should be organized at suitable centres (pars. 51, 79, and 109) . . .	These recommendations are supported.
53	They should be constructed by their own capital or by a loan from the Government (para. 79).	
54	Godown should be run by competent managers under co-operative organization (paras. 79 and 108).	
55	Government should lend one officer to run them if necessary (para. 108) . . .	
56	Godown societies should give advance on produce (para. 79)	
57	Sale from godown should at first be by private contract but grading and sale in bulk should be aimed at (para. 79).	
58	The godown co-operative societies should be financed by the central bank (para. 80).	
59	The marketing of perishable goods such as oranges should be by co-operative society on the system developed in California (para. 81).	
60	Communications require improvement (para. 82)	These matters are dealt with in our report (para. 272).
61	The possibility of constructing electric tram lines for goods and passengers connecting with light railways should be examined (para. 82).	
62	The use of standard weights and measures should be insisted on (para. 88) . .	
63	There should be a staff to inspect weights and measures and arrange for prosecutions for offences (para. 88).	We agree.
64	The successful co-operative marketing of agricultural produce in America should be studied (para. 115).	No remarks.
65	The co-operative marketing of coffee for the smaller planters should be attempted (para. 115)	These recommendations are supported.
66	Such a society should be strongly capitalised (para. 115)	
67	It should have its own godown (para. 115)	
68	It should lend on crops hypothecated and produce stored in its godown (para. 115).	

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	MARKETING AND INTERNAL TRADE—*contd.*	
	COORG—*contd.*	
69	It should grade, produce and guarantee quality (para. 115)	These recommendations are supported.
70	It should supply planters' requisites and inspect all estates (para. 115)	
71	It might undertake curing and joint sale in bulk (para. 115)	
	MADRAS.	
72	Existing market conditions could be improved by the establishment of godowns to which the ryot could take his produce and sell it at his leisure (paras. 183 and 199).	This is dealt with in our report (paras. 279 and 280).
73	The provision of godowns and a co-operative sale society would greatly improve the marketing of cotton in the Bellary area (para. 193).	These recommendations are supported. Please see our recommendations (paras. 275, 279 and 280).
74	Pending the development of full co-operative sale societies which will grade, pack and sell under guarantee, godown societies should be developed (para. 204).	
75	Government should lend more freely to co-operative societies for the purpose of constructing godowns (para. 205).	
76	More facilities should be offered to co-operative societies for constructing godowns (rat proof in plague affected districts) (para. 359).	
77	Steps should be taken to organize markets at suitable places on different days of the week (para. 184).	This is a matter for consideration by the Provincial Government and is dealt with in our report (para. 272).
78	An organization which can follow and publish prices will be of help to the ryots in marketing their produce (para. 185).	These recommendations are supported. Please see our recommendations
79	The creation of a tea market with a weekly auction would be to the advantage of the grower (para. 195).	
80	Specific regular markets are necessary for all important crops at the important centres of the trade in each district (para. 203).	
81	These should be controlled by a marketing board in which the growers are strongly represented (para. 203).	

82	Dalals should be licensed (para. 206)	(paras. 272-285).
83	Weights and measures should be regulated and constantly inspected by the market authorities (para. 206).	
84	The prices prevailing in the various places should be recorded, correlated and communicated for publication at each market by central agencies (para. 206).	
85	Closer study of the marketing of agricultural produce should be introduced in the six co-operative training institutes in the mofussil and in the central school at Madras (para. 207).	The teaching should be both theoretical and practical.
86	Co-operative institutes should, through their permanent staff, investigate marketing conditions and collect statistics regarding the prices of produce and costs of production and of marketing (para. 208).	
87	Railway feeder roads should be sufficiently numerous and in good order (paras. 219 and 246).	These recommendations are supported. Please see our recommendations (paras. 272-285).
88	There should be controlled markets for important commodities of commerce including produce and cattle (para. 223).	
89	It is desirable to open a local market for skins and hides with periodic auctions and with warehouses for stocking goods (para. 242).	
90	There is need for a bureau of commercial intelligence from which current prices can be communicated to various markets and merchants (para. 246).	If a marketing board is established as recommended by us, the communication of prices might be one of its functions (para. 284).
91	There will be more scope for co-operative enterprise when Government backed by public opinion enforces the use of only correct weights and measures (para. 254).	This recommendation is supported (para. 272).
92	There should be a marketing officer under the Registrar of Co-operative Societies (para. 209).	If a marketing board is established as suggested by us and if a provincial Marketing Officer is appointed, there will be no necessity for another marketing officer for Co-operative Societies.
93	He should be conversant with the business side of agriculture to look after and develop loan and sale societies (para. 353).	
94	He should study and foster all forms of co-operative societies for the marketing of produce (para. 353).	
95	He should see that co-operative institutes are in a position to give instruction on all commercial subjects (para. 353).	
	PUNJAB.	
96	The recommendation of the Royal Commission on Agriculture that regulated markets should be established on the Berar system, as modified by Legislation in Bombay, is endorsed (para. 86).	This is dealt with in our report (para. 272).

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	MARKETING AND INTERNAL TRADE—*contd.*	
	PUNJAB—*contd.*	
97	As the best single remedy for the grower's marketing difficulties is co-operation, co-operative marketing should be steadily developed; but it will probably be many years before anything of the nature of a pool can be organised on co-operative lines (para. 89).	This is dealt with in our report (paras. 294 and 295).
98	Licensed warehouses are at present premature, but may be needed in time (para. 92).	This is dealt with in our report (para. 281).
99	Before any attempt is made to introduce the Egyptian Warehouse scheme, a deputation including an official, an agriculturist, and a grain dealer should be sent to Egypt to examine and report on the system (para. 93).	This recommendation is not supported.
	UNITED PROVINCES.	
100	The co-operative societies should be employed for the purpose of marketing finance and thus the cultivator's power of holding up stocks should be strengthened (para. 259).	This is dealt with in our report (para. 275).
100A	Such defects as the following can only be cured by legislation or administrative regulation:— (*a*) The use of a variety of local weights or measures; (*b*) false weighment; (*c*) the levy of a variety of incidental charges and imposts; (*d*) the absence of grading; (*e*) the secret settlement of prices (para. 262).	This is dealt with in our report (para. 272).
101	Government should initiate an enquiry with a view to introducing standard weights and measures (para. 264).	These are dealt with in our report (para. 272).
102	After necessary enquiry legislation should be undertaken to establish regulated general markets as recommended by the Royal Agricultural Commission (para. 267).	
103	By far the most important suggestion is the introduction of co-operative marketing societies (para. 268).	This is dealt with in our report (para. 275).
104	The expansion and improvement of farming imply improved storage facilities, but grain elevators or licensed warehouses will not be required for some years to come (para. 269).	

105	When warehouses are established, the late Mr. Madon's Draft Bill (attached) may be taken as the general basis, but the warehouseman should not be permitted to deal in, or lend money on, goods of the kind that are deposited in his charge and the grading officer must be entirely independent (paras. 270-271).	These are dealt with in our report (paras. 279 to 281).
106	For various reasons it is neither possible nor desirable for Government to manage the proposed warehouses. They should be managed through private enterprise (paras. 272-273).	
107	In the circumstances the *bepari* is and will continue to be an indispensable feature in rural economy, but the sooner he can be done away with the better for the producer (para. 275).	No remarks.
108	It would be desirable to form a marketing department which should study all marketing problems, organise trading societies and assist in the establishment of open and regulated markets, particularly for the sale of principal crops (para. 306).	The recommendation is supported and is dealt with in our report (paras. 284 and 285).
109	*Timber trade.*—Licensed warehouses at suitable railheads would enable the contractors to get sufficient credit on the security of their stocks of timber (para. 558).	No remarks. Please see our recommendations regarding licensed warehouses (paras. 279—282).
	INDUSTRIES.	
	ASSAM.	
1	Initial capital for opening out tea gardens till the profit making stage is reached should be provided by the proprietors and an adequate reserve, by limiting dividends, should be built up to tide over a time of crisis (paras. 108 and 109).	The conditions enunciated by the Provincial Committee are undoubtedly desirable, but it has been represented to us that such conditions are not generally within the reach of the average person or firm launching on the enterprise. Please see our recommendations in chapter XVI.
2	It is desirable to establish some type of industrial bank in Calcutta with branches in Assam which could grant accommodation for a temporary or extended period to industries in general and to the tea industry in particular. Government should take up shares or debentures in the bank (para. 109).	This is dealt with in our report (paras. 401 to 408).
3	The Revenue and Forest departments should enquire into the allegations as to the absence of land suitable for *som* trees and as to the extinction of the *mezankori* tree (para. 113).	This is a matter for the Provincial Government who propose to make enquiries.

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	INDUSTRIES—*contd.*	
	ASSAM—*contd.*	
4	Pupils of the weaving schools should on return to their villages spread the knowledge of improved methods; Government weaving parties should assert themselves and make their presence known in the villages. If it can be shown that their teaching is being carried into practice by the villager, Government may consider the advisability of adding to their numbers (para. 114).	This recommendation is supported and is accepted by the Provincial Government.
5	The working capital of the Gauhati Emporium should be increased (para. 114).	This recommendation is supported.
6	At present innate conservatism, failure to adopt improved methods, and social disapproval are great drawbacks to progress. The remedy lies in the extra effort demanded by increased pressure on the soil and by a continued desire to maintain a higher standard of living (para. 115).	No remarks.
7	Weaving for home consumption does not require financial assistance but credit facilities are often necessary when cloth is woven for the market. The Government weaving department should continue to supply improved looms and other appliances for cash or on the hire purchase system, and the loans at 6 per cent. interest by the Department of Industries should be more numerous. Yarn could be supplied for cash by the weaving parties or possibly through rural societies. The best solution, however, would be the establishment of industrial or sale and supply societies on co-operative lines for the supply of cocoons and yarn and for the sale of the finished product. These societies, however, require close supervision and capable management. Assistance would be required by Government in the form of an expert attached to the Department of Industries and of loans at a low rate of interest (para. 120).	This recommendation is supported. The Provincial Government have informed that action is being taken by the Director of Industries on the lines suggested.
8	As regards industries such as the making of mats and fishing nets, the co-operative department, when the staff is increased, should endeavour to establish rural societies (para. 118).	This recommendation is supported and is accepted by the Provincial Government.
9	In connection with any scheme for the development of cottage industries, the report of the Hon'ble Rai Bahadur Kanak Lal Barua may be studied with advantage.	We understand that the Provincial Government have accepted this recommendation.
10	Co-operative societies for assisting the weaving industry should be started, but with caution. Government should assist with loans on a low rate of interest (para. 160).	This is dealt with in our report. The question is already engaging the attention of the Provincial Government (para. 307).

11	The problems faced by the cottage industries relate not only to their finance but also to the marketing of their output. The salvation of such industries lies in co-operation (para. 221).	This is dealt with in our report (para. 307).
12	The societies should be organised on an extensive scale, a certain number of primary societies being combined into central financing unions, federated into the Provincial Co-operative Bank for financing, and into another provincial organisation in Calcutta for wholesale purchase and supply of materials and for collection and sale of finished articles (para. 221).	This is dealt with in our report (paras. 307 and 319).
13	The Department of Industries should, with greater earnestness, address itself to the task of improving the technical skill and methods of production of the artisans, and the movement of the co-operative organisation should be encouraged by closer co-operation between that department and the Co-operative Department (para. 221).	These recommendations are supported.
14	Government should undertake greater financial responsibilities to foster the movement (para. 222).	
15	The cottage industries subsidiary to agriculture do not give the agriculturists full employment for the whole year. In some cases the traditional subsidiary occupations have been lost by the severe competition of cheap articles produced by large factories both in India and abroad (para. 223).	No remarks.
16	The existing financial facilities enjoyed by tea gardens appear to be sufficient (para. 214).	The fact that the gardens under European management have in some cases to pay 25 per cent. interest for their requirements and the evidence before us of the Indian Tea Planters' Association, Jalpaiguri, indicate the advisability of the Provincial Government having the question re-examined more exhaustively than we have been able to do by the Provincial Industrial Corporation for Bengal when it is established (para. 356).
17	Tea concerns should build up substantial reserves. If the dividends be limited to, say, 15 per cent., for a few years, and the rest of the profits carried to the reserve, most of the gardens will be able to accumulate sufficient funds for meeting their annual recurring expenses from this fund. Borrowing will	The conditions enunciated by the Provincial Committee are undoubtedly desirable but it has been represented to us that such conditions are gene-

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	INDUSTRIES—*contd.*	
	BENGAL—*contd.*	
	then be unnecessary and the interest on loans will be saved. The result will be larger dividends in future (para. 214).	rally not within the reach of the average person or firm launching on the enterprise. Please also see our recommendations in chapter XVI.
18	Sufficient credit facilities for industrial establishments are at present not available from banks (para. 216).	This is dealt with in our report (para. 399).
19	Loans granted by the Imperial Bank to industrial concerns are inadequate; as a result, the latter have to depend on indigenous bankers (para. 216).	Do. (para. 340).
20	It is imperative that some method should be devised to ensure the stability and development of industrial concerns in Bengal (para. 217).	Do. (para. 399).
21	The existing joint stock banks, though distinctly commercial in character, render some assistance to the industries by financing the imports of materials used in manufacture. Such assistance should be given more freely. The joint stock banks can and should take a greater advantage of this legitimate channel of investing their funds and thus render more valuable assistance to the industrialists (para. 218).	This recommendation is supported.
22	The task of the valuation of the materials and stock of finished goods, against which advances are sought, should be taken up by some reliable agency, and suitable provision should be made to insure them against incidental loss (para. 218).	This is dealt with in our report (para. 370).
23	It is essential that a special type of industrial banks should be organised for systematic and regular financing of middle-sized and large industries. Their success, however, will depend largely on the financial assistance they may obtain at the hands of Government either direct or by way of a guarantee of a minimum dividend or the interest on the debenture (para. 219).	Do. (para. 401).
24	Until such banks are established, some measure of direct State assistance is necessary for giving immediate relief to the struggling industries. A State Aid to Industries Act should be passed in this province without any further delay, similar to the Act passed in Madras and Bihar and Orissa, with modifications on more liberal lines (para. 220).	Do. (para. 418).
25	State aid is not necessary in the present stage of development of the agricultural	Do. (para. 311).

	or urban credit societies, but it is essential in the case of all new forms of co-operation, provided that they cannot develop without such State aid and that the aid is withdrawn as soon as they can stand on their own legs (para. 277).	
26	In the case of artisans' societies the inspectorate should be considerably strengthened and selection should be made from men trained in the Department of Industries (para. 277).	This recommendation is supported.
	BIHAR & ORISSA.	
27	For cottage industry the main requirement is short-term credit for purchase of raw materials and maintenance during production and marketing. Occasional medium-term credit is required for replacement of tools.	This is dealt with in our report (paras. 305-307).
28	The Industries Department should examine more completely than it has yet done the possibilities of developing cottage industries in rural areas, concentrating on those which are most likely to supply subsidiary occupation to the agriculturists. Until this is done, and it should be done as promptly as possible, no improvement in credit facilities can be usefully suggested (para. 181).	This recommendation is supported and is dealt with in our report (para. 302).
29	If licensed warehouses are established, the products of cottage industries may be stored therein and credit raised on them during the period of marketing (para. 182).	Do. (para. 309).
	For organised industry, in addition to credit during production and marketing, and credit for replacement of machinery and extension of business, initial capital is required. For improvement of facilities for these three forms of credit we make the following suggestions:—	
30	An examination of the possibilities of opening branches of the Imperial Bank or of a joint stock bank for the short-term finance of the lac and mica industries might be undertaken (paras. 190, 191, 194).	This is recommended for the consideration of banks.
31	An examination of the possibilities of establishing licensed warehouses for the products of the grain-milling and mica industries might be undertaken (para. 194).	This is dealt with in our report (para. 309).
32	The Industries Department might share with the banks and approved *shroffs* the task of examining proposals for this grant of credit for replacement and extension of business, as well as the risk when credit is granted. The banks and *shroffs* should receive a commission for this assistance (para. 195).	Do. (para. 418).
33	Three members think that the province is now ready for the starting of an Industrial Bank with Government assistanee to promote the industrial development of the province (para. 196).	Do. (para. 401).

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	INDUSTRIES—*contd.*	
	BOMBAY.	
34	For a large number of cultivators there is no work on the fields for at least two or four months. The problem is twofold: (1) there should be suitable secondary occupations which the agriculturist can take up during the spare time at his disposal without having to give up cultivation and (2) there should be industries in which a portion of the population that cannot be supported by agriculture may find employment (para. 169).	This is dealt with in our report (para. 298).
35	The independent weaver and *karkhanadar* require loans on easy terms for purchase of raw material and for working expenses during the period of production against the security of finished products (para. 171).	Do. (para. 305).
36	Introduction of improved appliances and methods and marketing facilities are also necessary (para. 171).	Do. (para. 302).
37	District industrial associations should be started to provide to the weaver cheap raw material and marketing facilities and to undertake the work of education and propaganda in close co-operation with the Department of Industries. Such associations should be tentatively started on a co-operative basis in three or four important centres. Funds may in the initial stages be supplied by members and may be supplemented by loans from central banks or Government and also by grants-in-aid (para. 171).	Do. (paras. 307 and 319).
38	With a view to insuring co-ordination of effort and efficiency the weavers' co-operative societies should be affiliated to such associations (para. 171).	Do. (paras. 307 and 319).
39	The gold and silver thread industry should be thoroughly re-organised on modern lines. The problem of marketing can be solved by the industry itself, forming associations on the lines suggested. The Department of Industries should undertake educative propaganda by opening demonstration factories and the trade commissioners abroad should furnish necessary information about foreign markets (para. 172).	This is commended for the consideration of the Provincial Government.
40	The Department of Industries should conduct inquiries into the possibilities of subsidiary occupations suited to local conditions, climate, position and tastes. Such inquiries might be followed up by practical demonstrations of the advantages of selected industries. Enterprising people might then be financed by banks at moderate rates of interest, and technical knowledge and guidance might be placed at their disposal by officers of either the	This recommendation is supported.

	financing bank or the Department of Industries (para. 174).	
41	A scheme should be formulated for starting an industrial bank for the province which may have branches wherever necessary. Considering the important place which such a bank would fill in the banking system of the country, it should receive some measure of State aid (para. 177).	This is dealt with in our report (para. 401).
42	Smaller industries should be financed by the branches of the proposed industrial bank (para. 177).	Do. (para. 401).
43	Until industrial banking plays its part in the industrial regeneration of the country, it should be the policy of Government to render all possible financial assistance in fostering new and existing industries which hold out reasonable prospects of success and which are likely to assist in the economic development of the country (para. 177).	Do. (para. 418).
44	Government should enunciate and adopt a progressive industrial policy and provide a well-equipped agency to give effect to such a policy. It should not only carry out a comprehensive system of State aid to industries but also undertake supervision work to see that the assistance given to the industry is used for the purpose for which it was given (para. 177).	This is supported.
45	The Department of Industries should be endowed with sufficient resources, charged with definite functions and invested with authority to carry out the industrial policy of Government (para. 177).	Do.
	BURMA.	
46	The financing of cottage industries is best done through Chettiyars or professional moneylenders working on similar lines or co-operative societies (para. 291).	No remarks.
47	The time for an industrial bank (to supply capital for an indefinite period) in Burma is not yet ripe; current finance can be provided by the banks proposed in Chapter XIX and the Chettiyars and other banks and moneylenders (paras. 292 and 293).	This is dealt with in our report (para. 401).
48	Rice millers must have sufficient resources to obtain current finance as well as fixed capital before beginning the business and must provide for depreciation of plant and keep proper accounts (para. 298).	No remarks.
49	Care is required in planning the development of supplementary occupations for practical agriculturists who are owners or tenants (paras. 300 to 302).	
50	In the wet zones the cultivator who is an owner or a tenant with a full fixed holding requires his spare time for recuperation; in the drier zones where more time is available development should be in the direction of occupations closely related to the agriculture (para. 303).	

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	INDUSTRIES—*contd.*	
	BURMA—*contd.*	
51	Travelling adult schools and short courses on such subjects as agriculture and housewifery should be provided (para. 303).	This recommendation is supported for the consideration of the Provincial Government.
52	The problem of occupations for agricultural labourers is rather to provide whole-time employment for an unemployed part of the labourers than to provide part-time employment for all (para. 304).	No remarks.
53	Industries to absorb agricultural labourers should be sought amongst those that would utilise agricultural or forest products which are now wasted or are of too low a grade to get a profitable price when used for other purposes (para. 305).	These recommendations are supported for the consideration of the Provincial Government.
54	The recommendations of the Technical and Vocational Education Committee, 1927, should be taken up again.	
	CENTRAL AREAS.	
55	The possibilities of developing rural industries should be explored by the Board of Economic Development proposed by the Committee. Government should grant free of charge, on favourable terms, the services of Government officials or experts for starting or advising such industries as is done under the Central Provinces Industries Act; and the necessary credit facilities should be provided by the Co-operative Department, supplemented by financial aid from Government on terms similar to those adopted under the Madras State Aid to Industries Act (para. 128).	This is recommended for the consideration of Government. The matter is also dealt with in our report (paras. 302, 307 and 311).
	CENTRAL PROVINCES.	
56	Co-operative ginning factories are unsuitable and it is hoped that the Government will be able to devise some scheme for preventing unfair profiteering at the expense of the cultivator (para. 1190).	This is supported for the consideration of the Provincial Government.
57	Glass Works at Gondia and Nagpur have been instanced to illustrate the difficulty of obtaining finance from the Imperial Bank and also lack of enterprise on the part of shareholders themselves (paras. 1195 to 1199).	We hope that the Provincial Industrial Corporation, when it is established, will examine the difficulties of this particular industry in the matter of obtaining finance.

58	The Imperial Bank and joint stock banks are recommended to grant advances to shellac makers against their goods in the same way as they grant advances against grain and cotton (para. 1206).	This is supported for the consideration of banks.
59	To stimulate industry in this province an industrial bank is essential (para. 1218).	This is dealt with in our report (para. 401).
60	Legislation on the lines of State Aid to Industries Bill of 1920 is necessary (para. 1332).	Do. (para. 311).
61	The Department of Industries should devote full attention to the financing of cottage industries (para. 1304).	These recommendations are supported.
62	The appointment of a whole-time Director of Industries is strongly urged (para. 1306).	
63	The Economic Development Board could be utilised in collecting information and in educating public opinion (para. 1307).	We have recommended the establishment of a Board of Economic Enquiry which may be used for this purpose.
64	The training and supervising staff of industrial societies should be under the control of the Industries' Department (para. 1309).	This is a matter for the consideration of the Provincial Government.
65	Industrial survey of all the districts is essential (para. 1329)	This recommendation is supported.
66	Industrial banks are necessary to encourage investment of capital for the financing of the industries (para. 1331).	This is dealt with in our report (para. 401).
	MADRAS.	
67	If weavers are to increase production and compete in other markets, a co-operative selling organisation can be of great help (paras. 271, 276).	We agree (paras. 302 and 307).
68	In regard to marketing of cloth, standardisation of the production and guarantee of quality are essential (paras. 271 and 276).	
	PUNJAB.	
69	Co-operation is the only possible solution or mitigation of the financial difficulties which beset cottage industries. While all technical teaching and training required by the members of co-operative societies should be provided, directly or indirectly, by the Industries Department, the societies should remain under the undivided control of the Registrar (para. 117).	The recommendation is supported. We have also recommended assistance generally through the State Aid to Industries Act and the Provincial Industrial Corporations in our report (paras. 307 and 311).
70	*The Punjab Industrial Loans Act*— (*a*) The minimum loan of Rs. 500 should be reduced. (*b*) The following recommendation made by the Indian Industrial Commission in their report of 1917 is endorsed:—	

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	INDUSTRIES—*contd.*	
	PUNJAB—*contd.*	
	"All schemes for Government loans to industries should be worked with the object of handing over the business to a suitable agency in due course, and the intedest on these loans should bt fixed accordingly" (para. 119).	This recommendation is supported.
	UNITED PROVINCES.	
71	There is a future for scientific fruit farming, but if it is ever to be developed, the Agricultural Department must give the lead both by demonstration and preeept (para. 368).	No remarks.
72	Much has been done to improve poultry farming, but much more remains to be done in the way of propaganda and demonstration in the countryside (para. 370).	We agree.
73	There are great possibilities of the expansion and extension of various industries in the province, if advantage is taken of modern methods and improvements, especially the use of power. The Industries and Co-operative departments can render valuable service by making experiments, giving expert advice, obtaining suitable tools and advertising the wares (paras. 371-374).	We agree.
74	The finance of small rural industries is not distinguishable from rural finance generally. The co-operative movement must include both within its scope (para. 375).	
75	Co-operative societies, both for the supply of credit, raw materials and tools and for the disposal of products, are capable not only of increasing the prosperity of such industries as still flourish but of reviving those which are moribund, provided the artisans have first been educated in the principle of co-operation. This is a useful field of activity which should be explored by the Co-operative Department (paras. 400-401).	This is dealt with in our report (paras. 302 and 307).
76	The task of financing the co-operative societies of artisans, middlemen and *karkhanadars* must be entrusted to an industrial bank which, whatever its type, must sooner or later create branches at convenient centres and make agency arrangements in others (paras. 402-404).	Do. (paras. 307 and 319).

77	The Arts and Crafts Emporium at Lucknow should be re-organised so that (1) it may serve as an intelligence bureau in commercial and technical matters to the industries themselves and to the trade; (2) it may assist in the introduction of approved designs prepared by the School of Arts and Crafts; (3) it may adequately advertise all artistic products and (4) it may act as the headquarters of a system of sale depôts in all industrial centres of the province and possibly also in the major towns of other provinces and even abroad (para. 405).	This is recommended for the consideration of the Provincial Government and is also dealt with in our report (para. 310).
78	Advertisement of industries is essential but organisation must come first. Advertisement may follow when it is safe to advertise (para. 406).	No remarks.

LEGISLATION AND LEGAL PROCEDURE.

ASSAM.

1	As a general principle restrictions on the transfer of land are undesirable but in Assam there is justification for the retention of the clause in periodic *pattas* of the Assam Valley, prohibiting transfer of agricultural land to non-agriculturists without the permission of the Deputy Commissioner (para. 168).	This is dealt with in our report (paras. 227 and 228).
2	No legislation on the lines of the Punjab Regulation of Accounts Act of 1929 applicable to moneylenders should be undertaken in Assam till experience is gained of the working of that Act (para. 170).	This is dealt with in our report (para. 116).
3	There should be a Rural Insolvency Act suited for the ordinary agriculturist, but this would not apply to debts under Rs. 200 and the burden of proof that he was unable to pay would lie on the debtor (para. 171).	This is dealt with in our report. The recommendation is accepted in principle (para. 93).
4	It is advisable to have a record-of-rights for the permanently settled areas of Sylhet and Goalpara, but it will be of little value unless it is kept up to date (para. 172).	Where the record of rights is not complete or accurate or easily accessible, the local Government should pay early attention to complete and correct it.
5	Sylhet districts should have a Tenancy Act on the lines of the Goalpara Tenancy Act (para. 172).	This matter is generally dealt with in our report (paras. 227-228).
6	Settled tenants under lease-holders in Government lands should be given occupancy rights and the right to transfer lands with the landlords' consent (para. 172).	This recommendation is supported.
7	The preliminary mortgage decree might serve as the final decree provided the judgment debtor is given reasonable time to pay up. The notice of one month of arrest might be shortened (para. 173).	This recommendation is not supported.

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	LEGISLATION AND LEGAL PROCEDURE—*contd.*	
	ASSAM—*contd.*	
8	More officers are probably necessary for civil work in the Assam Valley (para. 173).	No remarks.
9	It must be left to the discretion of the Court in execution proceedings to decide whether interest should or should not be allowed from the date of decree and what instalments for payment should be granted. If, however, payment by instalments extending over one year is granted, the Court might at its discretion allow a moderate rate of interest—six per cent.—on instalments due for repayment after one year (para. 174).	We do not support any change in the provisions of the Civil Procedure Code in this respect.
10	No case has been established for making equitable mortgages current in Assam (para. 175).	No remarks.
	BENGAL.	
11	In this province there is no necessity at present for any protective legislation on the lines of the Dekkhan Agriculturists' Relief Act, the Punjab Land Alienation Act or Chapter VII-A of the Bengal Tenancy Act. On the other hand, restrictions on the free transfer of land by an agricultural tenant, where they exist—as in certain Government estates in the Western Duars, Darjeeling and the Chittagong Hill Tracts—should be removed, so that his credit may not suffer (para. 306).	We agree.
12	If there be no insuperable objection, the rule of the Original Side of the High Court that all commercial causes must come on the List within six months of the admission of the plaint, should be extended to all courts of original jurisdiction throughout the province and be made applicable to all suits for the recovery of loans secured and unsecured (para. 336).	We agree.
13	Provisions of section 59 of the Transfer of Property Act regarding equitable mortgages should be extended to important trading centres such as Dacca, Narayanganj and Chittagong, provided the interests of second and subsequent mortgages are secured by the registration of the equitable mortgages (para. 396).	We agree and have dealt with this matter in our report (para. 563).

	BIHAR AND ORISSA.	
14	In places where *hundi* business is important, an expeditious procedure for disposing of suits based on negotiable instruments should be introduced on the lines of Order XXXVII of the Civil Procedure Code (paras. 358, 390).	This recommendation is supported and is also dealt with in our report (para. 593).
15	The High Court should instruct subordinate courts in the use of their discretion to award interest during the pendency of the suit and during the period of execution (para. 359).	These recommendations are not supported.
16	The task of a creditor of rebutting the contention of a member of a joint Hindu family, that the debt was not incurred for the benefit of the family, should be simplified (para. 360).	
17	Impediments to the splitting up of mortgaged security and the redemption of part of it should be reduced (para. 361).	
18	The record-of-rights should be more frequently revised to make it easier to verify title to landed property offered as security (para. 357).	This recommendation is supported.
	BOMBAY.	
19	The Dekkhan Agriculturists' Relief Act should be repealed and a new Act containing a few provisions to safeguard the interests of the agriculturists should be enacted (para. 239).	We agree that the Act requires amendment. The specific suggestions made by the Bombay Committee are matters for the consideration of the Provincial Government.
20	The new enactment should apply only to small and genuine agriculturists (para. 240).	
21	Investigation of past transactions should be rendered possible by requiring money-lenders to keep proper accounts (para. 240).	
22	Provision should be made in the Act for allowing instalments for the repayment of the amount decreed (para. 240).	
23	Freedom for agriculturists from arrest in execution of decrees should be continued (para. 240).	
24	Suits now decided by the village munsifs might be entrusted to the village panchayat, the grant of judicial power to whom is now under the consideration of Government (para. 240).	
25	The Usurious Loans Act should be utilised more than is being done at present, but it cannot entirely replace the Dekkhan Agriculturists' Relief Act (para. 241).	We agree.
26	The provisions of the Insolvency Act are being abused in some cases. Effective measures should be taken to check dishonest recourse to the Act (para. 244).	No remarks.
27	A simple Rural Insolvency Act may be enacted at an early date (para. 244).	We agree (para. 93).

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	LEGISLATION AND LEGAL PROCEDURE—*contd.*	
	BOMBAY—*contd.*	
28	The record-of-rights is fairly accurate, but in some places better supervision and control are needed to see that the entries are properly and specially made. All rights and encumbrances should be correctly entered in the record (para. 245).	We agree.
29	Necessary steps should be taken for the speedy disposal of suits and prompt execution of decrees (para. 246).	We agree.
30	To remove the legal difficulties in relation to the just claims of moneylenders all suits for amounts not exceeding Rs. 200 should be referred to a board of three arbitrators for disposal (para. 247).	This is not practicable.
31	The operation of section 58 (*f*) of the Transfer of Property Act under which equitable mortgages are effected might be extended to a few other commercial centres besides Bombay and Karachi. The power of specifying such centres should be delegated to the local Government (para. 248).	We agree and have dealt with this matter in our report. But the delegation of powers to the local Government is not supported (para. 563).
32	When an estate is taken over for management under the Sind Encumbered Estates Act, a part of the estate may be sold to repay the debt if the income is not sufficient for the repayment of the debt within a period of five years. Reasonable rate of interest should be allowed on the outstanding balance (para. 249).	This is a matter for the consideration of the Provincial Government.
	BURMA.	
33	In each law the definition of bank or banker should be adapted to the special objects of the law (para. 652).	No remarks.
34	Certain amendments should be made in the Bankers' Books Evidence Act, 1891, pending the establishment of a register of banks (para. 655).	These recommendations are not supported.
35	The definition of banker in the Indian Stamp Act, 1899, should be revised (para. 685).	
36	A register of bankers should be established (para. 661)	
37	Pending the establishment of a register of bankers a definition of banker as suggested should be inserted in the Negotiable Instruments Act, 1881 (paras.	

	664 to 666).	
38	Definitions of business of banking and banker have been proposed for the Indian Companies Act, 1913 (para. 669).	
39	Definition of customer has been proposed for the Negotiable Instruments Act, 1881 (para. 673).	
40	An explanation as proposed should be added to section 131 of the Negotiable Instruments Act, 1881 (para. 675).	
41	The position of a banker crediting as cash a cheque received from his customer for collection requires early consideration (para. 678).	We do not see any necessity for the amendment of the law.
42	An explanation as proposed should be added to section 10 of the Negotiable Instruments Act, 1881 (para. 679).	This recommendation is not supported.
43	An explanation is proposed for addition to certain sections of the Indian Insolvency Act to protect a banker honouring cheques drawn by an insolvent in certain circumstances (para. 711).	The recommendation is not supported.
44	The provisions of section 47 of the English Bankruptcy Act, 1914, relating to property acquired by a bankrupt after adjudication, should be added to the Indian Insolvency Act, with such further amendments as may be required on this account (para. 714).	The necessity for the proposals is not clear.
45	A provision on the lines of section 4 of the English Bankruptcy Amendment Act, 1926, should be added to the Indian Insolvency Act (para. 716).	
46	The subordinate civil courts should be encouraged to award daily costs after the first day's hearing in cases of obstruction (para. 717).	The provisions of the Civil Procedure Code are sufficient. The recommendation is not supported.
47	The power to use the summary procedure of Order XXXVII under the Civil Procedure Code should be conferred upon all district courts in Burma and upon all sub-divisional and township courts in the Pegu and Irrawaddy Divisions and in the Akyab, Amherst and Mandalay Districts (para. 719).	These are matters for the consideration of the High Court.
48	Order XXXVII under the Civil Procedure Code should be extended as in Bombay to include certain other suits in the High Court of Judicature, Rangoon, and in district courts (para. 720).	
49	The High Court of Judicature, Rangoon, should be informed of certain points to which witnesses attached importance as tending to reduce delays in disposing of mortgage-suits (para. 721).	No remarks.
50	The prescribed interval of six months between the preliminary and the final decree in a mortgage-suit should be reduced to two months (para. 722).	These recommendations are not supported.
51	Sub-rule (2) of Rule 66 of Order XXI under the Civil Procedure Code should be amended to give decree-holders of suits which have gone by default an option whether the notice should be issued to the judgment-debtor or not (para. 723).	

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	LEGISLATION AND LEGAL PROCEDURE—*contd.*	
	BURMA—*contd.*	
52	The power of civil courts to alter the contract rate of interest from the date of suit to the date of decree should be withdrawn for money-suits where there is a clear contract that interest shall be paid till date of realisation at the contract rate (para. 725).	These recommendations are not supported.
53	Instructions should be issued by the High Court of Judicature, Rangoon, to all subordinate courts pointing out that the rate of 9 per cent. per annum reckoned from the date of decree to realisation should not be regarded as a maximum rate, but that the court should fix a rate which having regard to all the circumstances seems fair and reasonable (para. 727).	
54	The Transfer of Property Act, 1882, should be entirely re-drafted (para. 728).	
55	The whole of the Pegu and Irrawaddy divisions and the Akyab district and Mandalay town should be notified under section 69 (1) (*c*) of the Transfer of Property Act as amended in 1929 (para. 732).	This is dealt with in our report (para. 225).
56	As a cautious beginning the power to make mortgages by deposit of title-deeds should be extended to the headquarters of all registration districts and sub-districts in the Pegu and Irrawaddy divisions, subject to certain provisions for registration and for limitation of period (para. 748).	This is dealt with in our report (para. 563).
57	Act XX of 1929 should be amended to permit such extension to any region instead of any town (para. 748).	This is not supported.
58	Thereupon the extension advocated above should be enlarged to cover all Pegu and Irrawaddy divisions (para. 748).	This does not arise.
59	Reports by posts should be accepted (para. 744) subject to penalties for false reports (para. 748).	This is not supported.
60	In case the proposals of para. 748 are not acceptable in the four towns of Rangoon, Moulmein, Bassein and Akyab, the power to make mortgages by deposit of title-deeds in those towns without the proposed registration and limitation	No remarks.

	should be restricted to mortgages of property situate within the town (para. 750).	
61	The question of establishing a system of registration of title in land should be re-examined (para. 753).	No remarks.
62	The procedure for obtaining a landholder's certificate should be shortened and cheapened as suggested (para. 754).	We agree.
63	Registration of *lis pendens* should be required on the lines suggested (para. 755).	This recommendation is not supported.
64	Searches for all incumbrances resting upon a specified piece of property or all documents executed by or in favour of a specified person should be undertaken in offices of registration of deeds (para. 756).	This recommendation is supported.
65	Court fees in suits on promissory notes or mortgages should be payable in three instalments (para. 760).	This recommendation is not supported.
66	The fee for registering a deed of release from a simple mortgage or a reconveyance of a usufructuary mortgage should be abolished (or reduced) for property outside Rangoon subject to the payment of certain fees in special cases (para. 764).	These recommendations are commended for the consideration of the Provincial Government.
67	The fees for registering outside Rangoon a receipt acknowledging payment by the mortgagor of money due under a mortgage of property entirely outside Rangoon should be as for a mortgage of the same amount but subject to a maximum of Rs. 2 (para. 765).	
68	The fees for registering mortgages of land for an amount below Rs. 5,000 should not be enhanced (above those in force in April 1930) except so as to establish a minimum fee of one rupee (para. 766).	
69	Certain stamp-duties should be reduced (para. 767)	
70	Certain of the amendments of 1929 to the Transfer of Property Act should be made widely known (para. 777).	This recommendation is supported.
71	A summary of the previous discussions of the question of conferring upon Burma Buddhists the right to make wills should be published and the matter reconsidered (para. 774).	This is a matter for the consideration of the Provincial Government.

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	LEGISLATION AND LEGAL PROCEDURE—*contd.*	
	CENTRAL AREAS.	
72	With a view to protect small agriculturists or peasant proprietors and in order that the Land Alienation Act or Regulation should operate to their full advantage, and at the same time divert the savings of the bigger landowners into more profitable channels of investments, the Committee recommend that the agriculturists whose holdings fall short of the standard of an economic holding, to be determined with due regard to local conditions, should have power to alienate their holdings only in favour of those agriculturists who own 50 acres of land or less, and that alienations by such persons in favour of those agriculturists who own more than 50 acres of land should require the permission of the Collector which should, however, be freely given, in case it is found necessary for the owner of the uneconomic holding to sell his land and either the price offered by those owning less than 50 acres is not adequate or no purchaser from this class is forthcoming (para. 176).	These proposals seem impracticable, but they may, however, be examined by the local Governments.
73	In Ajmer-Merwara and Delhi, the discretion vested in the executive authority under the Land Alienation Act or Regulations to give permission to agriculturists to sell their land should be more freely exercised subject to the right of pre-emption in favour of members of agricultural tribes who cultivate the land themselves, provided the applicant can get a price which is not less than 20 times the annual net return from the land and provided that after discharging his debt he agrees to invest for at least ten years the proceeds of the sale in securities approved by the Collector (para. 176).	
74	Subject to certain safeguards, co-operative societies and land mortgage banks should be classed as agriculturists for the purposes of the Land Alienation Act and the same restrictions as are imposed upon the agriculturists in respect of the parties to whom they can sell their land should be imposed also on these co-operative credit societies and land mortgage banks (para. 176).	This is dealt with in our report (para. 228).
75	It is also desirable to relax section 29 of the Land and Revenue Regulations, No. 2 of 1877, in force in Ajmer-Merwara when the Istimrardar's creditor is a co-operative credit society or a land mortgage bank, a licensed indigenous banker, or an Indian joint stock bank (para. 176).	This recommendation is supported in principle in respect of co-operative credit societies and land mortgage banks.
76	Land belonging to insolvent agriculturists should be declared to vest in the	

	official receiver who may dispose of them to other agriculturists to whom the insolvent himself could have sold the land under the Land Alienation Act or Regulations (para. 177).	
77	None should be adjudicated as an insolvent if he has been guilty of an act of bad faith in regard to monetary transactions, and the insolvency laws should be amended accordingly. In all cases of applications for declaration of insolvency by indigenous bankers, the courts of law should be bound to ask the local Shroff's Association to allow a committee of four or five persons to examine and audit the account books of the licensed indigenous banker and investigate the applicant's fitness to be declared an insolvent before adjudicating him an insolvent. As these recommendations are not adequate for the protection of the general lending public, the Committee suggest the desirability of eliciting further the considered opinions of Bar Associations and the Judiciary on further amendments to the Insolvency Law (para. 178).	The case for the revision of the Insolvency Law on these lines may be examined by the local Governments.
78	Section 34 of the Civil Procedure Code should be amended so as to provide that the rate of interest ordered in the decree should be the contract rate (if it is not inequitable) on the principal sum from the date of the suit till the date of the decree and again from the date of the decree till realisation, and if the contract rate is inequitable, then at such rate as the court considers to be equitable (para. 180).	These recommendations are not supported.
79	In view of the post-war monetary conditions, section 35 of the Civil Procedure Code should be amended so as to empower the courts to allow interest on costs at a rate higher than 6 per cent. if they consider it reasonable to do so.	
80	The rate of interest under section 80 of the Negotiable Instruments Act might be raised from 6 to 9 per cent. per annum (para. 180).	
81	A land register for house property should be maintained both in the urban and rural areas in connection with the proposal to establish land mortgage banks and anyone should by application be able to have his name entered in a special column in the record-of-rights or land register by way of caution to prospective mortgagees and purchasers, no one except a minor being allowed in the absence of such entry to set up any title to landed property recorded in the name of another (para. 181).	This is supported in principle.
82	The law should be suitably altered so as to provide that in all mortgage transactions with Hindus, governed by Mitakshara Law, an enquiry made by an officer of a joint stock bank or of a land mortgage bank or by an executive officer authorised in this behalf by the local Government should be incorporated in the bond and be considered a *primâ facie* evidence that reasonable enquiries were made by the creditor regarding the necessity for the loan, thereby shifting the onus from the plaintiff to the defendant (para. 182).	This recommendation is not supported.

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	LEGISLATION AND LEGAL PROCEDURE—*contd.*	
	CENTRAL AREAS—*contd.*	
	The value of each property should be separately noted in the bond and the lien split up and mentioned separately so that a debtor could satisfy the debt and redeem his property piecemeal.	The recommendation is not supported.
	Suitable remedies should be devised for quicker recovery of dues from debtors as until this is done, no great development in banking can be achieved.	No remarks.
	CENTRAL PROVINCES.	
83	The Committee have pointed out that all restrictions on the rights of transfer by occupancy tenants and Government ryots which are not absolutely necessary should be removed, and have proposed the introduction of a Land Purchase Bill, to enable occupancy tenants to acquire the full rights of transfer in their land in those tracts in which Government declares by notification, after due enquiry, that the cultivators are fit to exercise them (paras. 1599 to 1608).	These recommendations are supported for the consideration of the Provincial Government.
84	Similar action with regard to ryotwari tenants is also recommended (para. 1610).	
85	They have recommended the introduction, in the Central Provinces, of a record-of-rights similar to that at present in force in Berar (para. 1788).	
86	The amendment of the Civil Procedure Code to remove the necessity for issue of preliminary notice to the judgment-debtor under rule 22, Order 8, Civil Procedure Code is recommended (paras. 1804 to 1806.)	This recommendation is not supported.
87	The Committee have stressed the need for creation of panchayat courts for the trial of money suits for sums of Rs. 100 and below. The Civil Justice Committee's recommendations are endorsed (para. 1812).	This recommendation is supported.
88	As regards the Insolvency Act, the Committee have recommended:— (*i*) the creation of an independent whole-time insolvency court; (*ii*) the appointment of regular receivers in insolvency; and (*iii*) the amendment of the law, whereby courts would be empowered to annual discharges in insolvency on breaches of condition; and that, in all but exceptional cases, an order of discharge should be conditional and not absolute (paras. 1726 to 1737 and 1743).	These are matters for the consideration of the Provincial Government.

89	The Committee have recommended the amendment of the Central Provinces Tenancy Act to enable Courts to appoint receivers for managing occupancy tenancy land of insolvents (paras. 1747 and 1748).	
90	The Committee have explained that the real purpose and effect of the Insolvency Act is not generally understood, and have recommended that its main provisions should be explained in a pamphlet in the vernacular, which should be widely distributed (para. 1725).	No remarks.
	MADRAS.	
91	Alienation of land should not be restricted to a greater extent than that allowed by the system under which full value is obtained for credit purposes (para. 361).	This recommendation is supported.
92	Official Receivers and Assignees should be permanent salaried Government Officers (para. 376).	We commend this for the consideration of the Provincial Government.
93	Civil courts should be required to deal more expeditiously with insolvency (para. 376).	
94	They should see that Official Receivers and Assignees take all possible steps to realize assets and wind up bankruptcies with the minimum delay (para. 376).	We agree.
95	Records of liquidated firms should be scrutinized to ensure that the liquidation has not come about by culpable action by the management (para. 378).	
96	No further action is necessary in regard to registration of encumbrances until more experience is gained with the system now obtaining in the Registration Department (para. 381).	No remarks.
97	There is need for reducing delays in court in litigation and execution (para. 389) .	
98	Courts should be prohibited from considering a plea that a transaction is *benami* (para. 390).	This recommendation is not supported.
99	The Revenue Department should not be saddled with the duty of bringing mortgaged lands to sale (para. 437).	This is a matter for the consideration of the Provincial Government. Facilities for recovery through Revenue officials are desirable.
100	The remedy lies in speeding up the process of civil law (para. 437) . . .	No remarks.
101	It is desirable to introduce measures for the control of chits (para. 495) . .	
102	The control of chits should take the form of registration by the district officer (para. 496).	
103	Registration should be accompanied by a list of members and of the by-laws (para. 496).	The subject is dealt with in our report (paras. 264-265).
104	Registration should be accompanied by a list of members and of the by-laws (para. 496).	

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	LEGISLATION AND LEGAL PROCEDURE—*contd.*	
	MADRAS—*contd.*	
105	The members of the chit should have cause of action against the promoters (para. 496).	The subject is dealt with in our report (paras. 264-265).
106	They should have power to apply for registration (para. 496)	
107	Government should have power to make rules prescribing certain forms of chit including prize chits (para. 496).	
108	All the rules promulgated in regard to chit funds should be given full publicity (para. 496).	
	UNITED PROVINCES.	
109	Equitable mortgage by deposit of title-deeds should be made legal in the province, as it is in presidency and port towns and also in the Punjab. Further, a mortgagee should be empowered to transfer his interest in the mortgage to his creditor by a mere deposit of the title-deed.	The first part of the recommendation is dealt with in our report (para. 563). The second part of the recommendation is not supported.
110	Every usufructuary mortgage should, as recommended by the Royal Commission on Agriculture, bear on its face the date of its final redemption (para. 321).	We agree.
111	The existing provisions of the insolvency law, if carefully administered, are sufficient to deter a debtor from missing it. Special insolvency judges may be appointed where insolvency petitions are numerous (para. 322).	No remarks.
112	The Civil Procedure Code should be so amended that courts no longer have discretion to reduce the stipulated rate of interest after the date of the suit unless the rate is "usurious" (para. 324).	This is not supported.
113	The possibility of avoiding delay in suits and in realisation of decrees should be examined and, if necessary, the number of judges should be increased (para. 325).	No remarks.
114	Judges should be armed with a greater power to prevent and punish any abuse of the facilities provided by law (para. 326).	
115	The ex-proprietary or occupancy tenant should be given the right to mortgage (but not otherwise transfer) his holding, (1) for a period not exceeding twenty years, (2) only to a land mortgage bank or a co-operative credit society; and the landlord's superior right should be recognised by giving him, in case of	This recommendation is supported in principle.

	enforcement of security by sale, the first right to purchase the equity of redemption.	
116	It is impossible to give a statutory tenant even a restricted right of transferability. Since, however, purchase of an occupancy right is legally permissible, a land mortgage bank should be permitted to lend to a statutory tenant the money necessary for that purpose, on the security of the occupancy holding which he will thus obtain (para. 333).	It is unsafe for land mortgage banks to deal with such securities.

REMITTANCE FACILITIES AND INSTRUMENTS OF CREDIT.

ASSAM.

1	The duty on bills of exchange payable otherwise than on demand should be half the present rate when payable not more than one year after date or sight. In bills payable at more than one year after date or sight, the present stamp duty should be retained. This reduction of duty on bills need not affect the duty on bonds. In Assam the loss of revenue consequent on the reduction in stamp duty recommended will be negligible (para. 123).	This is dealt with in our report (para. 593).
2	Nothing should be enacted which would upset the existing practice by which the commercial community ensure the safety of *hundis* by writing specific instructions on the face, in the absence of an expressed wish on the part of the commercial community for alteration. It may be advisable to create a type of cheque which being drawn originally payable to bearer will always remain so payable, but this is a matter on which the commercial community in large trading centres in India are best fitted to advise (para. 124).	This is dealt with in our report (para. 564).
3	A standardised *hundi* or bill of exchange would probably increase the number of *hundis* which would have widespread circulation throughout India and thus promote mobility of credit and be the beginning of an organised money market (para. 125).	This recommendation is supported.
4	The rate for supply bills and telegraphic transfers should be reduced to 1 anna for sums of Rs. 5,000 and over, and every facility should be afforded for making remittances by supply bills to places outside the province (para. 126).	We have recommended that the cost of internal remittance should be reduced as far as possible with a view, among other things, to the discontinuance of the practice of cutting notes. But we should leave the actual rates to be charged for supply bills and telegraphic transfers to be decided by Government.

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	REMITTANCE FACILITIES AND INSTRUMENTS OF CREDIT—*contd.*	
	ASSAM—*contd.*	
5	Some reduction in the rate of commission is desirable both for money order and for V. P. P. (para. 126).	We recommend that the Government of India should examine the proposal particularly in the case of remittances not exceeding Rs. 10, with due regard to the policy accepted by the Legislature about the Indian Postal and Telegraph Department making adequate recoveries from the public for the services rendered by it.
6	To popularise the use of the cheque a rapprochement between the local indigenous banks, joint stock banks and the Calcutta banks is essential (para. 228).	The Committee themselves have said that it is only a matter of time and the establishment of confidence.
7	Cheques in the vernacular should be popularised. It is unreasonable to postulate that the growth of the cheque habit should be *pari passu* with the spread of English education (para. 228).	This is dealt with in our report (para. 560).
8	Treasuries where there is no branch of the Imperial Bank should be permitted to accept payment of Government dues over a certain amount by cheques drawn by persons on an approved list on approved banks (para. 229).	We support the recommendation in principle.
	BENGAL.	
9	The primary requirement for the expansion of banking organisation in the country is a well-organised money market with a central bank at its head to control credit as well as the currency policy (para. 225).	This is dealt with in our report (para. 605).
10	If preference is given by the banks to bills of exchange in the shape of trade acceptances in matters of discount, the practice of drawing bills will soon develop to the immense benefit of all parties concerned (para. 230).	This practice should be encouraged and extended (paras. 536 to 541).

11	It is not desirable to encourage the use of pro-notes in trade. The pro-notes does not offer a certainty that the proceeds will be actually used for productive purposes and commercial operations (para. 231).	Loans on promissory notes are useful from the banks' point of view as under Order XXXVII of the Civil Procedure Code they can institute summary suits in regard to such loans.
12	The existing scale of stamp duty on Bills of Exchange, including *hundis*, is high. It is a well-known fact that owing to the high stamp duty on the *hundis* the parties avoid it by taking recourse to a *purja*, which is not negotiable and cannot be discounted. Total abolition or even a substantial reduction (say, to 3 pies per Rs. 100) of the existing stamp duty will certainly popularise these instruments (para. 235).	This is dealt with in our report (para. 593).
13	A distinction should be made between bills payable within a year of issue or sight and after that period. The latter kind of bills are really accommodation papers and, as such, should be excluded from the benefit of reduced stamp duty. Bills and *hundis* drawn in the province are, however, mostly for periods less than a year. The reduction of the stamp duty, as suggested is therefore expected to give an impetus to the practice of drawing bills and thus foster the growth of banking habit (para. 235).	This is dealt with in our report (para. 593).
14	A standard form may be introduced for the bearer *hundi* which would always retain its bearer character. No one should, however, be compelled to use such an instrument unless he wanted to do so. No standard forms should be prescribed for *hundis* payable to order. Most of the *hundis* in the province are of the latter category. There will thus be no unnecessary interference with the existing system (para. 238).	This is dealt with in our report (paras. 564 and 593).
15	The consensus of opinion is that the system of note-cutting is an advantage, and, till the banking organisation has expanded, the facilities to obtain refunds of the lost half notes should be reintroduced (para. 239).	The correct method of remedying this state of affairs is by reducing the cost of internal remittance as recommended by us (para. 566).
16	Arrangements should be made for transferring Savings Bank deposits by letters of credit (para. 239).	The recommendation is not supported.
17	Every effort should be made to further develop the system of remittance through indigenous bankers, who as well as the loan offices should be linked with the money market in Calcutta. The cost of remittance is then sure to come down (para. 239).	We have recommended that indigenous bankers who carry on pure banking should be granted remittance facilities at the same rate as they are given to joint stock banks. No further facilities are recommended (para. 139).

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	REMITTANCE FACILITIES AND INSTRUMENTS OF CREDIT—*contd.*	
	BENGAL—*contd.*	
18	The Committee feel that wherever possible, banking instruments and other papers and books should be written in Bengali as well as in English. Whether the advantages will outweigh the difficulties involved in the use of bilingual forms, it is for the banks themselves to consider (para. 467).	This is dealt with in our report (para. 560).
19	A much larger issue than the mere convenience of customers is involved in popularising Bills of Exchange. Until a regular bill market is developed, close cohesion among the different component parts of the banking organisation brought about by the discounting and rediscounting of bills will be impossible. Hence the hindrances to the issue of bills such as a high stamp duty should be removed as far as possible (para. 468).	These are dealt with in our report (para. 593).
20	The stamp duty on inland bills of exchange for terms not exceeding ninety days, should be entirely abolished, and on those for terms exceeding ninety days but not exceeding one year, should be halved, the present duty being continued for bills for a term of over one year. The present duty on promissory notes should be retained (para. 468).	
21	To meet the resulting loss of revenue the Committee would suggest that the Calcutta Stock Exchange be requested to enforce the payment of stamp duty on blank transfers on the English plan of periodic settlements and to declare blank transfers (which are much in vogue in Calcutta) as bad delivery. Without this co-operation, a mere declaration that a blank transfer is void in law will only inflict hardship on innocent purchasers but will be futile in other respects (para. 469).	
22	It is desirable to create by law a type of instrument which being originally made payable to bearer should always remain so, even if any endorsement to the contrary be made on it by any one other than the drawer. This legislation should not, however, cover *hundis*, which should as heretofore be governed by local usage. The Committee do not think that any protection is required in the case of *hundis* analogous to that provided by crossing in the case of bearer cheques (para. 473).	This is dealt with in our report (para. 564).
23	In the mufassal, arrangement should be made for clearing cheques in the local branch of the Imperial Bank of India, or where no such branch exists, by	These recommendations are supported and are mainly for the consideration of the Imperial Bank of India.

	the local banks themselves (para. 496).	
24	In Calcutta, one clearing a day should be arranged for small banks (para. 496).	The Reserve Bank, when it is established, will look after clearing arrangements.
24A	Cheques should also be introduced in Postal Savings Banks (para. 496) . .	This recommendation is supported.
25	*To encourage cheque habit*—	
	(1) Use of both English and vernacular cheques is recommended (para. 496).	This is dealt with in our report (para. 560).
	(2) Wherever there is a branch of the Imperial Bank the following payments of sums exceeding Rs. 100 should be made and accepted by Government by cheques payable at the Imperial Bank:—	
	(*a*) Salaries, pensions and other Government payments.	
	(*b*) Purchase money in auction sales conducted by civil and revenue courts and other Government offices.	This is supported and is for the consideration of the Government and the banks.
	(*c*) Land and excise revenue, cesses, income tax and other Government dues.	
	(*d*) Deposits made by private persons in civil, criminal and revenue courts.	
26	Where there is no branch of the Imperial Bank a court or other Government officer making a payment exceeding Rs. 100 to any private person should, at the request of the payee, make the payment by a cheque payable at any branch of the Imperial Bank that he may mention (para. 497).	
	BIHAR AND ORISSA.	
27	The present stamp duty on negotiable bills of one year or less than one year's usance should be abolished (para. 210).	This is dealt with in our report (para. 593).
28	The form of *hundis* should be standardised throughout India (para. 213) . .	These recommendations are supported.
29	The Negotiable Instruments Act should be amended to provide a separate chapter dealing with the law regarding *hundis* (para. 213).	
30	It should also be amended to secure that cheques once drawn to bearer should retain that character throughout. *Hundis* drawn as *sahjog* should remain *sahjog* and those drawn as *dhanjog* should remain *dhanjog* throughout (para. 212).	This is dealt with in our report (para. 564).
31	In places where *hundi* business is important an expeditious procedure for disposing of suits based on negotiable instruments should be introduced on the lines of Order XXXVII of the Civil Procedure Code (paras. 358 and 390).	This recommendation is supported (para. 593).
32	Banks should consider the desirability of using vernacular cheques and keeping vernacular accounts, enlisting the aid of *shroffs* for these purposes (para. 461).	This is dealt with in our report (para. 560).

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	REMITTANCE FACILITIES AND INSTRUMENTS OF CREDIT—*contd.*	
	BIHAR AND ORISSA—*contd.*	
33	As part of a general reduction of remittance rates, discount on cheques payable through a bank should be abolished (para. 462).	We have recommended that the cost of remittance should be reduced as far as possible. We prefer to leave the details to be considered by the banks under the leadership of the Reserve Bank when it is established (para. 566).
34	Better clearing house arrangements should be established (para. 462) . .	This is dealt with in our report (para. 626).
35	The post office should experiment in the opening of current accounts for a selected clientele, on which they could operate by means of crossed cheques (para. 473).	This recommendation is not supported.
36	The creation of agricultural bills of not more than six months' usance should be encouraged in all possible ways. In particular such bills drawn by co-operative banks, registered mahajans, and rural licensed warehouses should be placed on the list of documents with which the Reserve Bank, if it comes into existence, may deal (paras. 152, 209, 211, 278, 408 and 411).	This is dealt with in our report (Chapter XXI). We have not recommended the registration of mahajans.
37	Remittance rates should be reduced by all possible means, the Imperial Bank setting the example (paras. 199, 203, 416 and 462).	This is dealt with in our report (para. 564).
	BOMBAY.	
38	To encourage co-operative banks in their work of inland exchange business, the facilities for free remittance transfer, recently reduced, should be restored in places where no adequate facilities for remittance are available at present. At places served by the branches of the Imperial Bank and other banks, co-operative banks should be allowed to transact remittance business and the facilities ordinarily given to the public should not be withdrawn from them. At other centres free remittance facilities should be made available within limits (para. 186).	This is dealt with in our report (para. 182).

39	The co-operative banks should also be given the facilities of getting funds by the sale of drafts on the apex bank at district and *taluka* treasuries free of charge (para. 186).	This recommendation is not supported.
40	The existing facilities for supply bills should be extended. The minimum limit for the issue of these bills should be reduced from Rs. 1,000 to Rs. 500. The existing charges for such bills should also be reduced and the restrictions that the bills should be drawn in even sums of hundred rupees should be removed. Publicity work should be undertaken to apprise the public of the facilities available at the treasuries for purposes of remittance (para. 187).	We have recommended that the cost of internal remittance should be reduced as far as possible. The other detailed recommendations made here are for the consideration of Government (para. 566).
41	The Imperial Bank should give increased facilities for remittance and suggest ways and means to Government of giving facilities to joint stock banks, co-operative banks, indigenous bankers and the public generally through its own local offices and branches and their treasuries and sub-treasuries (para. 187).	This recommendation is supported in principle.
42	The Post Office should reduce its rates for money orders and insured letters (para. 188).	We recommend that the Government of India should examine the proposal, particularly in the case of remittances not exceeding Rs. 10, with due regard to the policy accepted by the Legislature about the Indian Postal and Telegraph Department making adequate recoveries from the public for the services rendered by it.
43	The Negotiable Instruments Act should be amended so as to provide that negotiable instruments including cheques and bills of exchange, which are expressed on the face of them as drawn to bearer, shall not, despite any endorsement, loss their character as bearer instruments (para. 192).	This is dealt with in our report (para. 564).
44	The Federation of Indian Chambers of Commerce and Industry should be asked to consider the question of the desirability of standardising the varying usages governing *hundi* transactions with a view to arriving at a solution of the problem in consultation with the associations concerned (para. 195).	The recommendation is supported (para. 593).
45	The stamp duty on *mudati hundis* should be abolished (para. 196) . . .	This is dealt with in our report (para. 593).
46	Other means of popularising dealings in *hundis* are suggested (para. 197) . .	These may be considered by the Federation of Indian Chambers of Commerce.

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	REMITTANCE FACILITIES AND INSTRUMENTS OF CREDIT—*contd.*	
	BOMBAY—*contd.*	
47	Co-operative banks and indigenous bankers should be encouraged to do *hundi* business in the *mofussil* and they should be appointed, if it can be arranged, agents of the Imperial Bank (para. 199).	This is dealt with in our report (paras. 595 to 604).
48	With a view to reducing the amount of frozen capital in business introduction of trade acceptance credit is desirable (para. 199).	This practice should be encouraged and extended.
49	The protection given under Section 85 of the Negotiable Instruments Act to banks in respect of forged endorsements on cheques should be extended to drafts drawn by one branch of the bank on another or on the head office. The procedure laid down in respect of cheques should be accepted in respect of demand *hundis* also (para. 201).	Legislation has already been passed in regard to this (Act XXV of 1930).
50	Further extension of the use of cheques can be encouraged by charging a low rate of exchange on upcountry cheques (para. 303).	We take it that the intention of the recommendation is that the rate of discount on cheques should not be higher than the rate on remittances.
51	Further use of cheques could be encouraged if vernacular script was allowed to be used (para. 304).	This is dealt with in our report (para. 560).
52	Joint stock and co-operative banks should allow moneys to be withdrawn from savings banks accounts by cheques (para. 305).	This recommendation is supported.
53	Cheques should be accepted by Government in payment of land revenue (para. 306).	This recommendation is supported in principle.
	BURMA.	
54	Stamp-duty on usance bills and promissory-notes up to nine months usance should be reduced (paras. 343-345).	These are dealt with in our report (para. 593).
55	Stamp duty for bills of more than nine months should be the same as for a bond (para. 345).	
56	Definition of bills of exchange in the Indian Stamp Act should be amended (para. 349).	This recommendation is not approved. The object can be achieved by confining the proposed reduction or abolition of the stamp duty to bills of exchange as defined in the Negotiable Instruments Act.

57	The Negotiable Instruments Act should be made to apply in full to bills of exchange in a language indigenous to Burma (para. 350).	We approve of this recommendation in respect of Burma only.
58	The term *hundi* in Burma should exclude all bills of exchange and promissory notes to which the Negotiable Instruments Act applies in full (para. 351).	
59	Standard bill-forms in English and Burmese should be provided for optional use (para. 352).	These recommendations are supported.
59A	Savings bank depositors should be allowed to credit or debit money orders to their accounts (para. 361).	
	Money-order forms should be enlarged (para. 362)	
60	Balances of some surplus sub-treasuries should be reported to Rangoon more frequently (para. 368).	No remarks.
61	Postal orders for internal remittance in India or Burma should be issued (para. 384).	This recommendation is supported.
62	Letters of credit should be issued and paid by post offices at district headquarters subject to transfer of the work to a bank when feasible (para. 389).	This recommendation is not supported.
63	Banks in Burma should accept Burmese signatures on cheques (para. 595) . .	This recommendation is supported for the consideration of banks.
64	Government's willingness to accept at places where there is a branch of the Imperial Bank crossed cheques drawn on banks which have clearing accounts should be made more widely known (para. 596).	This recommendation is supported.
65	All Government treasuries should accept cheques drawn by any approved local bank which is either a member of the Rangoon Clearing House or is represented on it (para. 597).	This recommendation is supported in principle.
66	The draft bill (rejected in September 1929) for amending the Negotiable Instruments Act should be adopted after modification by omitting its clauses 2 (*a*) and (*b*) and amending the statement of objects and reasons (para. 685).	These are dealt with in our report (para. 564).
67	If there is apprehension that instructions on the face of a bearer hundi will be ignored as a consequence of adopting the last recommendation hundis should be excluded from the operation of the new act (para. 686).	
68	The protection given to bankers by section 85 of the Negotiable Instruments Act, 1881, should be extended to include endorsements subsequent to that of the payee (para. 687).	The matter requires examination by the Government of India.

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	REMITTANCE FACILITIES AND INSTRUMENTS OF CREDIT—*contd.*	
	CENTRAL AREAS.	
69	A nation-wide mobility of funds is most vital in this country in view of the fact that its chief industries are associated with the exploitation of natural resources, its financing season in one industry is often the repaying season in some other, and the seasonal demand for financing in various provinces does not exactly coincide. Owing to marked differences in the banking development between the developed and undeveloped provinces as also between the rural and urban areas in each province, the necessary economy in moving funds cannot, however, be secured unless (*a*) there is a rapid development of the branch system or of the agency system under control of a head office of a parent or affiliating joint-stock bank, (*b*) the indigenous bankers are intimately linked with the Imperial Bank with its wide-spread branches and facilities for remittance through currency chests, (*c*) the post office banks are utilised to the utmost extent for remittance work and linked with the system of indigenous banking and financing in the mofussil, and (*d*) the institutions for financing agriculture are more closely connected with the Imperial Bank and joint stock banks in the matter of short-term loans to agricultural industry (para. 154).	This is dealt with in our report. Please also see our remarks in connection with similar recommendations by other Provincial Committees (para. 566).
70	It is essential for banking development that the cheque habit should spread and remittance facilities be extended to places where there is at present no banking institution except a post office. The Committee consider that the Government have in their post offices an excellent agency for helping in this direction, as in many foreign countries where they are utilised extensively for this purpose. In view, however, of the vastness of the country and absence of any previous experience of this business, the Committee do not wish to go as far as is the practice in continental countries in Europe, and recommend instead an experiment on a limited scale in the first instance. They suggest that city post offices and selected mofussil post offices should be allowed to open current accounts free of interest up to a prescribed limit for a limited class of clients, *e.g.*, licensed indigenous bankers, licensed village money-lenders, co-operative societies, who should have the privilege of remitting to notified places, free of charge, sums not exceeding the limit laid down by the postal authorities in consultation with the indigenous bankers' association or the Licensing Board for village money-lenders against a current account maintained at the head	The question how far the postal savings banks may be permitted to do banking business has been dealt with in our report (para. 646). As regards facilities for money-lenders and indigenous bankers, please see Chapters VII and VIII of our report.

	post office in the district towns, and never allowed to fall below a prescribed minimum (monthly) balance (para. 242).	
71	The Committee recommend that the head post office in the district towns should from time to time announce that it will be prepared to remit funds to places all over India in which post offices have usually surplus funds in certain months, at specially reduced rates, provided that at none of these places there is a branch of a joint stock bank or of the Imperial Bank of India, and provided also that the rates charged to banks and licensed indigenous *shroffs* shall be appreciably lower than the rates abovementioned.	This recommendation is not supported. The funds in the hands of the postal department are part of the Government balances and post offices cannot operate on them in the manner proposed.
	CENTRAL PROVINCES.	
72	As regards 61-days *hundis*, they are often used for raising short-term commercial loans. The Committee favour the reduction of duty on these instalments of credit to the lowest possible rate (para. 1358).	This is dealt with in our report (para. 593).
73	The standardization of Bills, as far as is possible, is recommended but with regard to Marwari *hundis*, the all-Indian Marwari Chamber of Commerce should be consulted in the matter (paras. 1360-1361).	These recommendations are supported.
	As it is essential to develop the free circulation of the *hundi* as an instrument of credit, it should be bilingual, *i.e.*, in English as well as in the vernacular. This will encourage the commercial banks to discount a much larger number of *hundis* than they do at present (para. 1361).	
74	The Committee are in agreement with the banking and commercial opinion that the holders of cheques and *hundis* should have a right to protect themselves by making them payable to order (para. 1362).	This is dealt with in our report (para. 564).
75	The need for the organization of a system of Bankers' clearing houses has been stressed (para. 1371).	Do. (para. 626).
76	The postal department should play in future an increased part in some forms of remittances, including the issue of letters of credit for travellers, pilgrims, etc. (para. 1377).	We are not in favour of the Postal Department developing any new banking business. We have recommended that withdrawal of savings banks deposits by cheques be permitted and that savings banks depositors should be allowed to have money-orders debited or credited to their accounts (paras. 644 to 646).
77	Cheques should be bilingual, *i.e.*, both in English and in the Vernacular. The possibility of using the post office branches as banking institutions is also suggested (paras. 2308 and 2309).	This recommendation is dealt with in our report (paras. 560 and 646).

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	REMITTANCE FACILITIES AND INSTRUMENTS OF CREDIT—*contd.*	
	COORG.	
78	The treasury should cash cheques (para. 91)	This recommendation is not supported.
	MADRAS.	
79	*Hundi* forms should be standarised and printed in diglot for interprovincial use (paras. 246, 288).	These recommendations are supported and are dealt with in our report (para. 593).
80	The precise forms to be used for all *hundis* should be fixed by a committee representing the principal banking communities (para. 289).	
81	Post offices should stock for sale bill forms printed in English and the vernacular in parallel (para. 290).	
82	Special railway receipts distinguished in colour or otherwise from those commonly used may be recognised as documents of title and made transferable (para. 296).	No remarks.
83	Bills of exchange for different terms of usance need not be taxed at different rates (para. 297).	This is dealt with in our report (para. 593).
84	Stamp duty may be reduced by half and made the same for all usance bills (para. 298).	
85	Legislation should be undertaken that no bearer cheque can be altered to an order cheque by endorsement (para. 313).	Do. (para. 564).
86	Any such alteration made on the face thereof must be supported by the name in full of the drawer or endorser making such alteration (para. 313).	
87	*Hundis* should be treated exactly as cheques if they are cheques (para. 314) . .	
88	Cheques printed in diglot could be widely used (para. 517)	This recommendation is supported (para. 664).
89	Far more use of cheques should be made in Government Offices (para. 518) . .	These recommendations are supported in principle.
90	They should be accepted in payment of dues to Government (para. 518) . .	
91	Not only land revenue but other material payments in all departments should be so permitted, if necessary, only after collection through a bank (para. 518).	
92	The post offices and all Government offices should admit marked cheques and receive them in payment of dues of all kinds (para. 518).	We do not support this recommendation in the case of post offices.

93	Cheques against post office savings bank should be accepted for payment of money orders, etc. (para. 518).	This recommendation is supported. The words "payment of money orders" are apparently intended to mean "remittance by money order".
94	All Government servants whose pay is above a reasonable minimum should receive their salary by cheque (para. 518).	This recommendation is supported.
95	There is no justification for charging commission on cheques of one branch of the Imperial Bank cashed in another (para. 520).	This is a matter for the consideration of the Imperial Bank of India.
	PUNJAB.	
96	The minimum charge of one anna for money orders of Rs. 5 or less should be re-introduced, and there should be a substantial reduction in the money order rates for sums higher than Rs. 100 (para. 122).	We recommend that the Government of India should examine the proposal, particularly in the case of remittances not exceeding Rs. 10, with due regard to the policy accepted by the Legislature about the Indian Postal and Telegraph Department making adequate recoveries from the public for the services rendered by it.
97	If the postal cheque system in force in Germany and Switzerland could be introduced, it would be of great value to trade and commerce (para. 124).	We are not in favour of the Postal Department developing any new banking business. We have recommended that withdrawal of savings banks deposits by cheques should be permitted and that savings banks depositors should be allowed to have money orders debited or credited to their accounts.
98	The feasibility of paying salaries by cheque in the case of Government employees drawing more than Rs. 100 per mensem should be carefully considered.	We agree.
99	The payment by cheque of the purchase price of colony lands should be freely allowed, and the instructions issued on the subject should be reviewed.	
100	Permission to pay land revenue by cheque should also be freely given (para 239).	
101	Railways should consider lowering their charges for the transmission of coin (para. 125).	This is recommended for the consideration of Government.
102	Efforts should be made to make supply bills better known and to encourage their use (para. 127).	This recommendation is supported.

Serial No.	Recommendations made by Provincial Committees	Our recommendations.
	REMITTANCE FACILITIES AND INSTRUMENTS OF CREDIT—*contd*	
	PUNJAB—*contd.*	
103	The possibility of dispensing with the sanction of the Currency Officer, Lahore, to the issue of supply bills in the case of surplus treasuries should be considered, subject, if necessary, to a suitable maximum limit (para. 127).	This is a matter for the consideration of Government.
104	The charges for the issue of supply bills should be reduced (para. 127) . . .	This recommendation is supported.
105	Cheques once drawn payable to bearer should remain so indefinitely, and legal effect should be given to this, but in doing so, the right to cross a cheque should continue as at present (para. 136).	This is dealt with in our report (para. 564).
106	The essential features of a *hundi* should be standardised so as to produce a document simple in language and terms, and this should be done by law (para. 138).	This recommendation is supported.
107	The stamp duty on *hundis* should be reduced to a nominal figure (para. 141) . .	This is dealt with in our report (para. 593).
108	Railway receipts should be made negotiable, and action should be taken by the Chambers of Commerce and Trade Associations and, if necessary, by the Legislature to remove or reduce the risks involved in this (para. 144).	This is dealt with in our report (para. 283).
109	The stamp duties on debentures should be considerably reduced in order to popularise this form of borrowing (para. 145).	This is dealt with in our report (para. 657).
	UNITED PROVINCES.	
110	The use of bills of exchange—*mudati hundis*—should be encouraged by both bankers and banks (para. 479).	This recommendation is supported and is dealt with in our report (Chapter XXI).
111	The stamp duty on bills payable within six months after date should be reduced to the level of the duty on demand promissory notes; whilst bills payable within 30 days should become duty free (para. 479).	This is dealt with in our report (para. 593).
112	The central bank should be empowered to accommodate indigenous bankers by discounting their *hundis* either (1) at the same rate as the joint stock banks, if they keep a minimum current account with the central bank or (2) at a slightly higher rate if they do not (para. 479).	This is dealt with in our report. We are not in favour of differential rates for rediscount facilities based on current account balances (para. 137).
113	Various market practices relating to *hundis* should be standardised (para. 479) .	This recommendation is supported.

114	There should be no restriction, legal or customary, on the use of vernacular scripts (para. 480).	This is dealt with in our report (para. 560).
115	The restrictions on currency transfers may be relaxed in two directions: (*a*) the treasury officer may be empowered to issue any number of currency transfers and supply bills to any number of applicants, up to a certain limit of amount over a certain period; (*b*) these documents may be issued also at such sub-treasuries as are located in centres of trade which possess no other remittance agency save the post office (para. 526).	This is a matter for the consideration of the Government.
116	Money order rates should not exceed double the Imperial Bank rates for remittances (para. 521, also 509).	We recommend that the Government of India should examine the proposal specially in the case of money orders not exceeding Rs. 10 with due regard to the policy accepted by the Legislature about the Indian Postal and Telegraph Department making adequate recoveries from the public for the services rendered by it.
117	A rupee postal order of the same type as the sterling postal order should be introduced (para. 522).	This recommendation is supported.
118	Post Office cheque accounts may be tried in places where modern banking facilities do not exist (para. 523).	This is dealt with in our report (para. 646).
119	Travellers' letters of credit should be issued and their use encouraged (para. 523) .	This recommendation is not supported.

INVESTMENT HABIT AND ATTRACTION OF CAPITAL.

ASSAM.

1	Postal cash certificates are more suited for the literate classes than for the agriculturists who would have to be educated up to the benefits of purchasing them. The former purchasing rate of Rs. 7-8 might be re-introduced though it is doubtful if this would lead to increased sales (para. 220).	We cannot make any recommendations regarding the rate for Government borrowings, but we may point out that the present issue rate is Rs. 7-8.
2	It is not desirable that postal cash certificates, with more favourable terms, should compete with investments, such as deposits in rural societies (para. 221).	
3	Interest on postal cash certificates might be allowed after the first 6 months though it is doubtful if this would be an additional attraction (para. 221).	

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	INVESTMENT HABIT AND ATTRACTION OF CAPITAL—*contd.*	
	ASSAM—*contd.*	
4	As regards agricultural savings the line of development would lie rather in inducing the cultivator to make deposits in rural societies than in the post office savings bank (para. 222).	We endorse this recommendation.
5	Enquiry should be made by Government as to whether postal insurance should be extended to the general public and into the feasibility of a scheme for the purchase of annuities by cash certificates (para. 223).	This recommendation is not supported.
6	There is no special form of investment which would appeal to orthodox Muhammadans beyond investment in land. The free flow of Muhammadan capital must be left to the play of natural forces and of changing ideas. Increased pressure on the soil with the growth of population will accentuate the process (para. 224).	No remarks.
7	Fuller publicity should be given to the facilities afforded by the post office for the purchase of Government securities free of any brokerage charges and of their deposit with the Accountant General free of income-tax (para. 226).	This recommendation is supported for the consideration of the Government.
8	It is premature to consider methods of investment such as investment trusts, and provincial savings associations (para. 227).	No remarks.
9	Current accounts should ordinarily be opened in reliable local banks but where these do not exist, an experiment may be made of allowing them to be opened in the post office (para. 231).	This recommendation is not supported.
10	The post office may be used for the sale of gold cash certificates (para. 231) . .	The recommendations of the Hilton Young Commission regarding the introduction of savings certificates payable in gold are supported. The details are for the consideration of the Government (para. 649).
11	The post office should not be employed for lending out its surplus funds (para. 231).	We agree.
	BENGAL.	
12	*Existing facilities for the purchase and sale of gilt-edged securities.*—In Calcutta, different classes of industrial securities, which are now ordinarily dealt with	We doubt whether any practical action in this matter is either desirable or

	in big lots, should be made available in small lots to the investors with limited means at fair price (para. 490).	feasible.
13	In the mufassal, important loan offices and indigenous banks may undertake the purchase and sale of securities in Calcutta on behalf of their clients on a commission basis (para. 491).	We agree.
14	Knowledge and information of the securities' market should be diffused through newspapers and periodicals (para. 491).	
15	*Postal Cash Certificates.*—No change is necessary either in the existing rules for encashment or in the limit of individual holding (para. 478).	No remarks.
16	The following measures should be adopted for improvement in the working of postal Savings Banks:— (*a*) Use of pass books and signatures in vernacular . . . . . . (*b*) Opening of savings banks deposits in branch post offices and ensuring prompt repayments of deposits in these offices. (*c*) Facilitating deposits by cheques, the amount being credited on collection . (*d*) Allowing withdrawals by cheques drawn on the post office (this will encourage the cheque habit). (*e*) Allowing withdrawals in other post offices by withdrawal forms or pay orders or letters of credit. (*f*) Allowing joint accounts to be opened and operated by either of the depositors and by the survivor on the death of either (para. 479).	All the measures except (*e*) are supported.
17	*Other Savings Banks* such as those associated with the Imperial Bank and some exchange and joint stock banks are useful in Calcutta only. They may introduce safe boxes to popularise savings habit and promote thrift (paras. 481-482).	These recommendations are supported for the consideration of banks.
18	*Joint-stock banks.*—Branches may be opened in different parts of the city of Calcutta by these banks with suitable working hours to attract investors (para. 485).	
19	*Investment trusts* may be organised in this country with an honest and experienced board of directors capable of following the activities of the securities' markets of the world. These Trusts may take up underwriting business, find capital for really good concerns and help the existing industries in various ways (para. 492).	This is dealt with in our report (para. 662).
20	*Gold Cash Certificates.*—The issue of gold cash certificates similar to Postal Cash Certificates redeemable at maturity in legal tender money or in gold at the option of the holder may foster investment habit in rural areas (para. 493).	The recommendations of the Hilton Young Commission regarding the introduction of savings certificates payable in gold are supported (para. 649).

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	INVESTMENT HABIT AND ATTRACTION OF CAPITAL—*contd.*	
	BENGAL—*contd.*	
21	*Provincial Savings Associations.*—Small deposits may be collected from the small investors in the mufassal through post offices or any other existing local agencies and handed over to an organisation under rigid Government control formed on the model of non-official institutions called Provincial Savings Associations found in Japan, Sweden and Denmark. The management will be in the hands of a statutory board, which will handle such collections for investment in safe securities yielding a higher return than the Postal Savings Bank (para. 494).	The establishment of Provincial Savings Associations is supported in principle (para. 667).
22	*Postal Insurance.*—The extension of the privilege of postal insurance to the general public will involve unfair competition with the private insurance companies without conferring any appreciable benefit on the country (para. 495).	We agree.
	BIHAR AND ORISSA.	
23	Thrift and the use of money should be a subject in the curriculum of schools and colleges (para. 465).	No remarks.
24	Savings associations may be started with the guidance of the Scout organisation (para. 464).	The formation of savings associations is supported in principle (para. 667).
25	Home savings safes should be distributed by co-operative and other banks (para. 463).	This recommendation is supported.
26	The possibility of provincialising the banking business of the post-office should be examined (para. 459).	These recommendations are not supported.
27	The post-office should undertake to insure the lives of members of the ordinary public with suitable restrictions (para. 447).	
28	Postal savings bank accounts should be kept in English or in the local vernacular at the option of the investor (para. 477).	This recommendation is supported.
29	On postal cash certificates interest should begin to accrue after three months. Loans should be made on them at a somewhat higher rate to the holder. In order to confine this form of investment to the small investor the maximum holding should be reduced (para. 481).	We cannot make any recommendation regarding the terms of Government borrowings.
30	More post-offices doing savings bank business should be opened in the rural areas (para. 476).	This recommendation is supported in principle.

31	The post-office should undertake safe deposit business (para. 484) . . .	This recommendation is not supported.
32	Special *stridhan* gold certificates should be issued to women (para. 486) . .	These recommendations are supported in principle (paras. 650 and 653).
33	The charges levied by banks for arranging investment in Government securities should be reduced (para. 450).	
	BOMBAY.	
34	The present limits of deposits to be made and the total balance that can be held by a single depositor in a post office savings bank are Rs. 750 and Rs. 5,000 respectively, while the limit for the balance in a minor's account is Rs. 1,000. It is suggested that the limit in respect of the minor's account should be raised but not the ordinary limits (para. 289).	These recommendations are supported.
35	Depositors should be allowed to make deposits and withdrawals by means of cheques, in selected post offices to begin with (para. 289).	
36	Accounts should be allowed to be opened in the names of two persons, payable to either or survivor, and provision should be made for the recording of nomination of the heir to whom payment is to be made in the event of the depositor's death (para. 289).	
37	Propaganda should be carried on for opening new savings bank offices, and in the experimental stage, in selected areas, officers of co-operative societies or village school-masters serving as part-time post-masters should be entrusted with the work of collecting deposits (para. 289).	
38	The system of nomination should be introduced also for postal cash certificates (para. 290).	This recommendation is supported.
39	The rate of interest on postal cash certificates should be lowered so as to keep it on par with the prevailing yield on Government securities. As few changes should be made in these rates as possible (para. 290).	We cannot make any recommendations regarding the rate for Government borrowings.
40	A part of the amount collected by the Government through post offices should be placed at the disposal of co-operative societies or advanced as *takavi* to individuals (para. 291).	This recommendation is not supported.
41	Provincial Governments should have a claim on the Central Government for cheap finance for the development of agriculture, trade and industries and for the grant of loans to public bodies such as municipalities and local boards (para. 291).	This is a matter for settlement in connection with the financial adjustment between the Central and Provincial Governments in the constitution.
42	Treasury bills are issued at present for longer periods than before and the rates of interest are also high. These features of the system are likely to hamper the growth of deposit banking and may, in the long run, even affect the lending operations of banks (para. 292).	This is dealt with in our report (para. 588).

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	INVESTMENT HABIT AND ATTRACTION OF CAPITAL—*contd.*	
	BOMBAY—*contd.*	
43	Public debt offices should be opened at Karachi and Ahmedabad. These two centres may also be authorised to issue treasury bills after acceptance of tender (para. 293).	Karachi is already a treasury bill centre. The rest of the recommendation is not supported in view of the evidence of the Managing Governor of the Imperial Bank of India.
44	In the case of Government securities, interest coupons should be attached to the bonds and the procedure for renewing notes and issuing bonds of smaller denominations, etc., should be simplified and speeded up (para. 293).	We understand that the issue of bearer bonds was discontinued by Government owing to their unpopularity. The rest of the recommendation is supported for the consideration of the Government (para. 654).
45	Banks may popularize investment in securities by reducing charges for safe custody and for purchase and sale, and by offering attractive terms for the purchase of new loans in instalments (para. 293).	This recommendation is supported. It is a matter for the consideration of banks (para. 653).
46	Co-operative societies and banks should explore all avenues for drawing to themselves savings of small men by attractive plans for savings deposits (para. 294).	These recommendations are supported.
47	In order to attract savings deposits joint stock banks should open small branches within city limits (para. 295).	
48	Investment trusts are not a practical proposition to-day in this province (para. 297).	This recommendation is dealt with in our report (para. 662).
49	There is a vast field for the spread of the operations of life insurance companies in rural areas and among owners of land (para. 298).	This recommendation is dealt with in our report (para. 658).
50	In view of the existence of a large number of local life insurance companies, the extension of the operations of postal insurance system for persons other than Government employees is not recommended (para. 298).	We agree (para. 659).
51	Steps should be taken to secure by legislation that all non-Indian insurance companies place some initial deposit with Government and also invest a certain percentage of their income from premia in India in approved Indian securities (para. 301).	This recommendation is dealt with in our report (para. 660).
52	Whatever hoards may be in existence can be mobilised by introducing gold certificates as suggested by the Hilton Young Commission (para. 302).	This recommendation is dealt with in our report (para. 649).

BURMA.

53	Effort to popularize post office savings banks should be concentrated upon industrial trading and administrative centres (para. 605).	These recommendations are supported.
54	Heads of factories and offices should arrange to make deposits and withdrawals on behalf of employees who cannot attend at the post office when that is open for savings bank business (para. 605).	
55	Post offices should open on some evenings for savings bank business in some of the largest towns (para. 605).	
56	Headings of columns in post office pass-books should be in Burmese as well as English (para. 606).	
57	The rules of the post office savings banks should be printed in the pass-books in Burmese as well as English, the more important being given separately (para. 606).	
58	The provision of home-safes for post office savings depositors should be tried (para. 607).	
59	The maximum amount permitted to be deposited in one year in a post office savings bank account should be increased from Rs. 750 to Rs. 1,500 (para. 608).	These recommendations are not supported.
60	The maximum amount to be held to the credit of any one post office savings bank account should be increased from Rs. 5,000 to Rs. 10,000, subject to restrictions upon withdrawals in certain places (para. 609).	
61	Post office savings depositors shquld be allowed to nominate persons to receive their deposits after death (para. 610).	These recommendations are supported.
62	Burmese Buddhist husbands and wives should be permitted to have joint savings accounts in the post office (para. 611).	
63	The rate of interest should not be raised so as to be inappropriate for savings deposits with Government security in comparison with rates paid by banks and earned by Government paper (para. 612).	We cannot make any recommendation regarding the rate for Government borrowings.
64	Post office savings banks should not be used as safe-deposits or as loan offices, and their deposits should not be lent to local co-operative societies (para. 613).	We agree.
65	Government should maintain proper reserves against post office savings bank accounts as an addition to those required for the paper currency (para. 614).	This recommendation is not supported.
66	An enquiry should be made into the causes of the high averages for deposits and withdrawals in post office savings banks (para. 615).	We agree.
67	The issue-price of post office cash-certificates should be reduced to 75 per cent. of the face value, and the graduation of redemption rates revised (para. 621).	We cannot make any recommendation regarding the rate for Government borrowings.

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	INVESTMENT HABIT AND ATTRACTION OF CAPITAL—*contd.*	
	BURMA—*contd.*	
68	Facilities for safe deposit of post office cash-certificates in the local treasury should be provided through the post office (para. 622).	These recommendations are supported.
69	A holder of post office cash-certificates should be allowed to nominate a person to whom they would be transferred in case of his death (para. 623).	
70	The position of Burmese Buddhist husbands and wives, owning certificates either jointly or in separate names, should be made clear in advertising the certificates in Burma (para. 624).	
71	A public debt office should be established in Rangoon (para. 626)	This is a matter for the consideration of the Government of India.
72	Government loans should be issued free of income-tax (para. 627)	We cannot make any recommendation in regard to the terms of Government borrowings.
73	The minimum amount remitted free by treasuries for the purchase of Government securities should be reduced to Rs. 1,000 (para. 628).	This recommendation is supported.
74	Sub-treasuries also should receive money to purchase securities up to Rs. 2,000 (para. 628).	These recommendations are supported.
75	The proceeds of selling Government securities through a treasury should be remitted free to any treasury (para. 628).	
76	Standard forms of endorsement in Burmese for Government promissory notes should be prescribed and Burmese signatures accepted (para. 629).	
77	The post office rules with respect to Government securities should be designed with a view to facilitating transactions in Government securities by all small investors and not merely to provide facilities for savings bank depositors (para. 634).	
78	The post office should undertake to sell Government securities for any person, whether a savings bank depositor or not, up to Rs. 2,000 nominal value in one calendar year, although the holder may not have bought through the post office; for securities bought through the post office there should still be no limit (paras. 634, 635).	

79	Every savings bank post office should accept for safe custody Government promissory notes and stock certificates up to a total nominal value of Rs. 30,000 without liability to income-tax and without reference to the manner of purchase (para. 637).	These recommendations are supported for the consideration of the Government.
80	Deposit of Government securities with the post office for safe custody should not confer exemption from income-tax, but the interest upon securities so deposited should be paid without deduction of tax at source (para. 637).	
81	The income-tax department should make its own arrangements for assessing the interest, and should be permitted to inspect the post office records of deposits for the purpose (para. 637).	
82	Persons depositing Government securities with the post office should be required to maintain a savings bank account to which the interest on the securities should be credited (para. 638).	
83	Post office Rule 49 should be amended by adding a provision that no interest will be paid while no savings account is maintained (para. 638).	
84	In case of the death of a depositor of Government securities his executor should be allowed to have a savings account for the estate until the securities are transferred to new holders (para. 638).	
85	Government should not undertake life insurance business for the public, but should help the development of life insurance by improvement of vital statistics and should set an example to other employers by granting facilities for remitting premia deducted from salary bills of employees of grades in which banking accounts are not usually kept (para. 641).	
86	Other employers should also arrange to pay insurance premia by deductions from salary bills for employees who have no banking accounts (para. 641).	No remarks.
87	Government should allow local funds to place money on fixed deposit or savings-account with banks, and should experiment with allowing deposits of such funds on current account (para. 643).	This recommendation is supported for the consideration of the Provincial Government.
88	Local bodies having current accounts with banks should be encouraged to pay their employees of suitable grades by individual cheques (para. 644).	This recommendation is supported and is a matter for the consideration of local bodies (para. 665).
89	Government's borrowings should be arranged principally to suit the smallest investors and the banks and insurance companies (para. 646).	We do not agree.
90	A National Thrift Committee should be established (para. 647).	This recommendation is supported in principle (para. 667).

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	INVESTMENT HABIT AND ATTRACTION OF CAPITAL—*contd.*	
	CENTRAL AREAS.	
91	There is no investment trust in these areas and there does not appear to the Committee to be sufficient scope for one, except probably in Ajmer where the Co-operative central bank gets a substantial margin of profit by attracting urban deposits at a low rate and investing a large percentage of them in Government securities. But an investment trust established in big cities like Bombay and Calcutta, under adequate safeguards against fraud, is likely to stimulate investment by those who are at present investing their savings in either land or Government securities for no other reason except their inability to judge the value of the different forms of investments; and by Mohammedans who have objection to acceptance of interest but no objection against receiving profits. In the absence of a big investment trust operating over a wide area, the co-operative department will be well advised to institute a co-operative investment trust in Ajmer for the benefit of this class of investors rather than allow the central bank in Ajmer to profiteer at their expense (para. 166).	The recommendation that the Co-operative Department should start an investment trust in Ajmer is not supported. Any surplus invested by the central banks in securities at present may be utilised in the movement itself as it spreads.
92	As there is a promising field for a National Savings Movement, especially in urban areas, the Co-operative Department and the Board of Economic Development suggested elsewhere should attempt to initiate schemes (para. 167).	This recommendation is supported in principle (para. 667).
93	The existing system of the post office savings banks account should be modified as follows:— (*a*) The number of withdrawals allowed within a week should be increased to at least two. (*b*) The annual and maximum limit on deposits should be raised to at least double the present limit in all places where there is no branch or agency of an Indian joint-stock bank or of a licensed indigenous shroff. (*c*) Interest for at least half the month should be allowed on deposits kept after the 4th of a month or withdrawn after the 25th of a month, if the amount deposited or withdrawn has remained with the post office for at least 20 days in the month (para. 237).	(*a*) is supported. (*b*) is not supported but please see our remarks against item 34 (Bombay). We do not make any recommendation in regard to (*c*).
94	In order to restrict competition with commercial banks, city post offices should not accept any deposit exceeding Rs. 500 for less than a year (para. 237).	This recommendation is not supported.

95	At post offices which have at present no savings bank accounts, savings banks may be opened for business only once a week in as many post offices as possible, for only 3 to 4 hours during the day (para. 237).	These recommendations are supported in principle.
96	A limited number of post offices in city areas should be kept open for savings bank business up to 8 o'clock in the evening in order to afford adequate facilities to labourers and shop-keepers engaged in retail trade (para. 237).	
97	The Post Office Insurance Fund, which is now open to Government employees, should be extended to the general public up to a limit of Rs. 1,000 in each case (para. 238).	This recommendation is not supported.
98	For the special protection of women, special certificates which could only be held by a woman should be issued, the interest on which should be payable every year through the nearest post office and the principal repayable only after 10 years, or on the death of her husband if it occurs earlier than 10 years (para. 239).	This recommendation is supported in principle (para. 650).
99	The credit difficulties of local trade should not be aggravated by withdrawal from the local money market of large sums of money through cash certificates, Government loans, treasury bills and postal savings banks. The Committee recommend that Government should slow down their borrowing programme in a period of depression and should earmark a certain minimum of the funds raised by means of cash certificates and postal savings bank deposits, for local investment for short-terms with banks, *shroffs* and industrial concerns. Similarly a specified portion of the amount in the Postal Insurance Fund and General Provident Fund may well be utilised for long period credit to local agriculture and industry through the Imperial Bank of India for the present, and through land mortgage and industrial banks when they are started (para. 241).	We have dealt generally with Government borrowings in our report. We are not in favour of earmarking a specified portion of such borrowings for agricultural or industrial purposes (para. 588).

CENTRAL PROVINCES.

100	The Committee have stressed the need for education in thrift and for an intensive investment campaign, and have recommended the revision of the vernacular school curricula for this purpose, and, in the village selected for rural reconstruction, the introduction of compulsory education where necessary (para. 2275).	We generally agree with these recommendations.
101	The Committee have stressed the urgent need for a concentrated campaign for developing the habit of investment and for providing adequate investment facilities in rural areas, and for this purpose they have recommended the extension of the number of post office savings banks in rural areas (para. 2258).	

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	INVESTMENT HABIT AND ATTRACTION OF CAPITAL—*concld.*	
	CENTRAL PROVINCES—*contd.*	
102	The Committee have recommended the provision of facilities for the sale of postal cash certificates and similar cash certificates to be issued by the land mortgage bank, through the co-operative Central Banks and societies and also through *patwaris* and schoolmasters on commission (para. 2278).	
103	The Committee have urged the need for the establishment of investment trusts and for provincial savings associations, and have pointed out that much can be done in this line through the co-operative credit movement (paras. 2294-2295).	This is dealt with in our report (para. 662).
104	The organization of provincial savings associations should be one of the principal duties of the Development Board (para. 2297).	This recommendation is supported in principle (para. 667).
	MADRAS.	
105	The post office insurance fund should be extended to the general public if this is found practicable as a result of actuarial examination (para. 514).	This recommendation is not supported (para. 659).
106	Insurance in all sound forms should be encouraged (para. 517)	No remarks.
107	There should be very few post offices in which cash certificates and savings bank deposits are not dealt with (paras. 507 and 521).	No remarks.
108	Bearer bonds may be issued at Rs. 3-14 repayable five years later (para. 522) .	We support the recommendation that cash certificates should be issued in lower denomination than Rs. 10, *e.g.*, Rs. 5.
109	They should be encashable at intermediate rates with quarterly enhancements (para. 522).	
110	The Co-operative Department and joint stock banks should inaugurate a more intensive propaganda to encourage the investment habit (para. 523).	
111	They should afford full facilities for deposit of savings and quick withdrawal of funds (para. 523).	We agree.

	PUNJAB.	
112	Various methods of making these banks more popular are suggested; the most important is to increase the number of savings bank post offices.	We agree.
113	The opening of joint accounts in the names of husband and wife should be permitted.	
114	Depositors should be allowed to nominate persons to receive payment of their deposits in the event of death.	
115	In the case of co-operative societies the Postmaster-General's sanction for withdrawal should not have to be obtained, and if funds are available, the full period of notice should not be enforced (paras. 299 and 230).	
116	The issue of treasury bills at over 6 per cent. has led to competition for money between Government and joint stock banks: This should be avoided as prejudicial to both agriculture and trade (para. 236).	This recommendation is dealt with in our report (para. 588).
	UNITED PROVINCES.	
117	In the matter of post office facilities:— (*a*) The present annual and maximum limits for savings banks deposits may be raised to a reasonable amount, not exceeding double the present figures.	This recommendation is not supported except to the extent indicated in regard to item 34 above (Bombay).
118	The agency of joint stock banks should be used on a commercial basis to sell post office cash certificates.	This is not approved.
119	Up to a maximum limit in any case, cash certificates should be made negotiable (para. 519).	This recommendation is not supported.
120	Cash certificates should be widely advertised through village propaganda (para. 520).	We agree.
121	The issue of a gold savings certificate paid for in gold and redeemable either in gold or in legal tender money is recommended (para. 528).	This recommendation is dealt with in our report (para. 649).
122	The postal insurance scheme may be extended to rural areas, so long as private insurance companies are not there but no such suggestion should be given effect to as is likely to involve, on balance, further expense to the State (para. 525).	This recommendation is not supported (para. 659).

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	LAND MORTGAGE BANKS.	
	ASSAM.	
1	Land mortgage banks should give preference to loans to ordinary agriculturists though perhaps deserving cases of small landowners might be considered (para. 64).	The recommendation is supported and has been accepted by the Provincial Government.
2	Loans should be given, for the present, mainly for the redemption of lands from mortgage and the repayment of old debts. No loans should be given to any one hopelessly involved. Loans should not be given for cottage industries, trade and commerce and only sparingly for the purchase of land (para. 66).	This is dealt with in our report (paras. 218-220).
3	A reasonable amount of share capital is necessary, some portion being left uncalled up as reserve liability (para. 68).	This is a matter for the Provincial Government to decide with reference to special conditions in Assam. We have made certain general recommendations for obtaining the working capital of land mortgage banks (paras. 221-224).
4	The rate of dividend should be restricted until an adequate reserve fund is built up (paras. 68 and 71).	The recommendation is supported and has been accepted by the Provincial Government.
5	Period for repayment of Government initial loans to the Kamrup and Sylhet banks should be extended to 20 years, no repayment being required in the first 5 years. Initial loans should be granted to other banks only if a reasonable amount of share capital is paid up (paras. 69 and 79).	These are matters for the Provincial Government who have accepted the recommendations.
6	Additional Government loans should be granted direct to the Sylhet and Kamrup bank, conditional on arrears being collected and on an attempt being made to build up an adequate reserve (paras. 69 and 79).	
7	Government might consider whether in the case of periodic leases it is possible to specify the share of each co-sharer (para. 72).	These are matters for the Provincial Government who have undertaken to look into the question.
8	Meantime maximum loan should not exceed Rs. 2,500 and minimum should be Rs. 300 (para. 73).	
9	Simple mortgages are preferable to conditional mortgages. There is no need meantime of any special legislation to ensure prompt recoveries (para. 74).	This is dealt with in our report. Where the Provincial Government supply the bulk of the working capital, the

		governing considerations are different and the matter is for the Provincial Government to decide (para. 225).
10	Loans should be granted to individuals or perhaps to groups of individuals but not to rural societies (para. 75).	Loans should be granted only to individuals.
11	Borrowers should be given an opportunity of suggesting the period of repayment and dates of instalments (para. 76).	This is dealt with in our report (paras. 219-220).
12	Expansion should meantime lie not in the direction of the registration of further banks, but in the firm establishment of existing banks on sound lines (para. 77).	This is a matter for the Provincial Government who have accepted the recommendation.
13	A loan misapplied should be promptly recalled. If it is granted for repayment of debt, or redemption of existing mortgage, the creditor's receipt and the mortgage deed should be made over to the bank (para. 77).	The recommendation is supported and has been accepted by the Provincial Government.
14	Government should contribute towards the pay of the valuer (para. 79) . .	These are matters for the Provincial Government who are asking the Registrar to consider the proposals.
15	Fees for making searches in the collectorate and registration offices regarding title and existing mortgages should be remitted or reduced. It might be feasible for an official of the bank to make the searches (para. 79).	
16	Issue of debenture bonds is at present premature. When the time comes for floating debentures—which form the best means of finance—they should be issued by a central institution like the provincial bank and should be of 20 to 30 years duration. Government should subscribe to a minimum (say) of two lakhs without any guarantee of principal or interest on condition that the public subscribed to a like amount. The bonds should not be made trustee securities in the early stages of issue (para. 80).	This is dealt with in our report (paras. 221-222).
17	The provincial bank might grant short-term loans where deposits which mature cannot conveniently be paid off with the funds in the hands of the banks but this should be exceptional (para. 82).	The system of land mortgage banks taking deposits is not approved (para. 224).
	BENGAL.	
18	A State-owned and State-managed land mortgage bank will be unsuitable for Bengal. It will not foster the spirit of self-help and self-reliance among the agriculturists (para. 144).	This is dealt with in our report (paras. 217-235).
19	A joint stock land mortgage bank providing loans on cheaper terms than those of existing institutions would not be an unmixed blessing for the ryot (para. 145).	Joint-stock land mortgage banks may be useful in satisfying the credit requirements of the large class of agriculturists who are outside the co-operative movement and to provide substantial loans to big landlords (para. 217).

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	LAND MORTGAGE BANKS—*contd.*	
	BENGAL—*contd.*	
20	In Bengal land mortgage banks of the co-operative type would be suitable, and their success can be assured by grafting them on to the existing co-operative central banks. The real advantage of the co-operative bank is that it avoids the danger of cheap credit by ensuring proper use of the loan (para. 146).	Land mortgage banks of the co-operative type should be kept separate from ordinary co-operative banks as explained in our report (para. 223).
21	In addition to land mortgage credit granted to the present members of the rural societies, separate arrangements should be made for granting long-term credit to persons who are not, nor are likely to be, members of such societies (para. 147).	Please see our remarks against Item 20 above.
22	There is no valid reason for shirking responsibility for loans on the part of rural societies, whose recommendations can hardly have any value unless they are prepared to be answerable for it (para. 148).	
23	A fixed proportion as to the share of the liability of the rural societies need not be laid down; it can only be settled by mutual agreement between them and the financing body (para. 149).	
24	There is at present hardly any use for a separate land mortgage bank in Bengal. If the central banks carry on this business, economy and efficiency of management will be secured. Central banks should be required to open up land mortgage departments, the extra share capital required being subscribed partly by affiliated rural credit societies and partly by other limited liability societies, to be started for substantial agriculturists and rent receivers. Long-term loans from 5 to 20 years, not exceeding half the value of the land mortgaged, are to be granted by this department (para. 156).	The mixing up of short and long-term business, in the manner proposed, is opposed to the conclusions which we have recorded in the report (para. 165).
25	To secure a sufficient volume of long-term funds to achieve the purpose, the bulk of the share capital of the central banks, which is not refundable, may be safely employed for land mortgage loans. A moderate proportion of the reserve fund may also be employed for the same purpose. And there is no reason why land mortgage bonds or debentures should not be popular if they are sufficiently safe and adequately remunerative and are brought within easy reach of small investors (paras. 157 and 159).	
26	The best form of rendering assistance will be for the Government to guarantee only the interest of such debentures, subject of course to such control as may be required by them for discharging this responsibility (para. 161).	These are dealt with in our report (para. 221).

27	Direct State subsidy, as in England, will not be justifiable as the circumstances here are different (para. 162).	
28	Conferring summary power for foreclosure and sale on co-operative land mortgage banks is theoretically unsound. For, apart from undue rigour to borrowers, they must lead to laxity in scrutinising the security and to carelessness in fixing the amount of the loan (para. 164).	This is dealt with in our report (para. 225).
29	The land mortgage bonds should be included in the list of Trustee securities (para. 165).	This is dealt with in our report (para. 221).
30	These bonds should be issued only by the provincial co-operative bank and only up to half the value of the land covered by mortgages, and should not exceed fifteen times the paid-up capital and reserve fund earmarked for the land mortgage department of the central bank concerned. At least two trustees elected by the debenture-holders should be associated with the persons appointed by the State in the administration of the provincial bank. The bonds should be for small amounts, say Rs. 50, and fully negotiable. If desired by a lender, bonds should be made out to bearer, with interest coupons attached in the usual way. A sinking fund should be set up for the redemption of bonds, and should be freely utilised in order that bonds may never fall to a discount. Both sale and purchase of bonds at standard rates should be freely undertaken by all co-operative central banks in order that there may be as wide a market for them as possible (para. 166).	This is dealt with in our report. The provincial co-operative bank should not issue the bonds except as a temporary measure. A separate land mortgage corporation should be set up (paras. 221-222).
	BIHAR AND ORISSA.	
31	A land mortgage bank under Government control should be established for the redemption of the debts of the landlord class and for financing their long-term improvements (paras. 326—340).	This is dealt with in our report (para. 217).
	BOMBAY.	
32	Under the existing arrangements, no portion of the margin between the borrowing and lending rates is available to the local land mortgage societies. Whether a fixed share of the profit should not be given to them is a question worthy of consideration (para. 115).	It is reasonable to give the land mortgage societies a share of the margin between the borrowing and the lending rates. In Madras one per cent. is allotted to the central land mortgage bank and one per cent. to the local land mortgage banks.

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	LAND MORTGAGE BANKS—*contd.*	
	BOMBAY—*contd.*	
33	Government should actively assist in starting a central land mortgage bank (para. 116).	These recommendations are supported.
34	The bank should be registered under the Co-operative Societies Act (para. 116).	
35	The bank should be allowed to issue debentures to the extent of twenty times the paid-up capital. Government should take up the unsubscribed portion of the share capital and guarantee both the principal and the interest on the debentures and should undertake to take up a portion of them (para. 116).	These are dealt with in our report (paras. 221-222).
36	Debentures of the central land mortgage bank should rank as trustee securities under the Indian Trusts Act (para. 116).	
37	A separate land mortgage bank should be organised for Sind. If this is not feasible, the central bank for the Presidency should open a branch in Sind (para. 117).	This recommendation is supported.
38	The central land mortgage bank should establish contact with the special agency for minor irrigation works and utilise its services for the extension of irrigation (para. 118).	This is a matter for the Provincial Government.
39	We foresee a time, though not in the near future, when the *takavi* operations of Government under the Land Improvement Loans Act will be gradually absorbed in the land mortgage system. When this happens some mutual arrangement between Government and the bank will have to be made for the grant of suspensions and remissions. The grant of subsidies may provide a solution of this problem when the question is eventually settled (para. 118).	The establishment of land mortgage banks should not lead to the disuse of the Land Improvement Loans Act. There is scope for both (para. 245).
40	The grant of the power of foreclosure to land mortgage organizations is not recommended (para. 119).	This is dealt with in our report (para. 225).
41	Though it is not necessary to prohibit joint stock associations from making advances to agriculturists on the security of the mortgage of land, under any banking legislation that is undertaken provision should be made for regulating the work of banks desirous of entering the field of agricultural land mortgage credit (para. 120).	This is dealt with in our report (para. 217).

42	In Sind, for big *zemindars*, co-operative *zemindari* banks would be the best means of finance not only for current agricultural purposes but also for land improvement and redemption of debts (para. 98).	This recommendation is supported.
43	Three co-operative land mortgage societies have been started in the province. Government may now consider whether they should not permit the formation of more co-operative land mortgage associations in different parts of the province without awaiting the results of the work of the three societies (para. 115).	This recommendation is supported. A provincial land mortgage corporation should be formed and all schemes of expansion should be left to its directors.
44	The arrangement of lending the services of a Government officer, for the systematic valuation of land, to land mortgage societies seems, on the whole, to be the most suitable in the existing circumstances (para. 115).	This recommendation is supported. The arrangement will only be temporary.
45	In respect of valuation and grant of loans, control must, in the present circumstances, be centralised (para. 115).	This recommendation is supported. The control should rest in the provincial land mortgage corporation recommended by us.
	BURMA.	
46	Joint-stock and co-operative land-mortgage banks are both desirable, each suiting a different class of landowners (paras. 192—194).	These are dealt with in our report (paras. 217-235).
47	The land mortgage banks should endeavour to strengthen the short-term co-operative credit system as much as possible (para. 200).	
48	*Government should guarantee the interest on debentures of land mortgage banks* (para. 202).	
49	*Debentures of land mortgage banks should be declared suitable for the investment of trust moneys* (para. 204).	
50	*Interest on debentures of co operative land mortgage banks (but not joint-stock land-mortgage banks)* should be exempt from income-tax (para. 205).	This recommendation is not supported.
51	A way should be sought to give a transferable title to holders of State land (para. 208).	This is a matter for the Provincial Government to consider.
	CENTRAL PROVINCES.	
52	The establishment of a land mortgage bank, operating through branches, where necessary, in various parts of the province is recommended (paras. 919—928).	A provincial land mortgage corporation with local land mortgage banks is a sound arrangement. Please see our recommendation (paras. 217-229).
53	There is need for obtaining money for carrying on land mortgage business at the lowest possible market rate, and a provincial land mortgage bank under proper management rather than a number of small banks operating independently would be suitable for the purpose (para. 931).	

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	LAND MORTGAGE BANKS—*contd.*	
	CENTRAL PROVINCES—*contd.*	
54	Land mortgage banks should not be on a co-operative basis (paras. 928 and 1001) .	Banks should be on a co-operative basis for the ordinary agriculturist. There may also be joint stock land mortgage banks for the bigger agriculturists (para. 217).
55	The major part of the resources of the land mortgage bank must be provided by debentures, and these debentures should be included in the list of trustee securities (para. 977).	This is dealt with in our report (paras. 221-222).
56	Half of these debentures should be in the form of premium bonds (para. 982).	This recommendation is not supported as it is not desirable in public interests.
57	The operations of the land mortgage bank should be confined to the amortization of existing debts (para. 941).	The purposes for which loans may be advanced are indicated in our report. For the present amortization of existing debt is the principal object (para. 218).
58	To secure public confidence, it is necessary that the debentures must be guaranteed by Government (para. 985).	Interest on debentures should be guaranteed by Government (para. 221).
59	For the maintenance of the financial stability of the bank, it is essential that the instalments, in which the debt is repayable, must be regularly and promptly recovered. There should be no suspension of recovery except in the years in which Government orders suspension of land revenue (para. 950).	The first part of the recommendation is supported. In regard to the second part it should be left to the discretion of the mortgage banks to deal specially with special cases of hardship.
60	To secure this regularity of recovery in years of poor harvests, annuities must be fixed at a sum well below the actual paying capacity in a normal year (para. 951).	It must be left to the bank to enforce equated or graduated payments (para. 220).
61	To enable substantial loans to be advanced, it may be necessary to fix repayment over a long period of years (para. 951).	This is dealt with in our report (para. 219).

62	A provident fund scheme, under which the borrower will be required to make an annual contribution of a fixed sum to a provident or sinking fund bearing interest approximating to the interest charged him on the loans, is recommended (paras. 952 and 955).	These are dealt with in our report (para. 224).
63	The land mortgage bank should also issue savings cash certificates for wide sale through co-operative societies, school-masters, *patwaris*, etc., etc., (para. 977).	
64	The land mortgage bank should work in close co-ordination with the co-operative central banks so as to be able to render financial assistance to them by encouraging depositors to invest in land mortgage debentures (para. 1000).	No remarks.
65	The land mortgage bank should develop eventually into an apex land bank (para. 996).	This is dealt with in our report (para. 229).
66	The land mortgage bank may grant advances to co-operative credit banks against mortgage deeds taken by the latter as collateral security (para. 997).	This recommendation is not supported.
67	The Committee has suggested that in the beginning, it might be advisable for the provincial land mortgage bank to concentrate its operations on selected villages, until its resources have increased sufficiently to extend further its activities (para. 2187).	No remarks.
68	The Committee has stressed the urgent need for the establishment of a provincial land mortgage bank, and have also brought to notice the need for the re-organization and training of the co-operative credit societies to a proper performance of their functions, and the concentration of the movement in future on the investment and savings rather than upon mere money-lending.	This recommendation is dealt with in our report (para. 165).
	COORG.	
69	Mortgage loans on *jamma* lands should be granted for all useful purposes (paras. 99 and 111).	This recommendation is supported.
70	Efforts should be made to institute a land mortgage bank (para. 109) . .	This is dealt with in our report (paras. 217-228).
71	It should not be necessary to get the Commissioner's sanction in advance for mortgage of *jamma* lands to co-operative societies in each case. Lands should be saleable in execution of money decrees. The Commissioner's sanction should be obtained before any land is sold (para. 111).	We agree.
72	Co-operative societies must be at liberty to sell all mortgaged lands in the open market (para. 53).	

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	LAND MORTGAGE BANKS—*concld.*	
	COORG—*contd.*	
73	*Jamma* land sold to another *jamma* holder should retain its *jamma* privileges (para. 111).	We agree.
74	It is not necessary that relations should be given first refusal of *jamma* lands brought for sale (para. 53).	
75	Government should purchase debentures in the land mortgage bank up to Rs. 50,000 *pari passu* with the public (para. 112).	This recommendation is supported.
76	Trust funds should be invested in co-operative land mortgage and central banks (para. 113).	Trust funds may be invested in land mortgage debentures if these are classed as trustee securities. We do not support the general recommendation that trust funds should be invested in co-operative central banks and land mortgage banks.
77	Local investigations for the land mortgage bank should be made into the title to alienability and value of land by a local Government officer (para. 113).	This recommendation is supported.
78	In the initial stages no charge should be made for this officer's services (para. 113).	We agree.
	MADRAS.	
79	Land mortgage banks are necessary for long-term finance (para. 119) . . .	These recommendations are supported and are dealt with in our report (paras. 217-224).
80	They should be entirely independent of, and not in competition for funds with, the co-operative organization for short-term finance (paras. 160 and 162).	
81	They should not ordinarily receive short-term deposits (para. 163) . . .	
82	Their debentures should be purchaseable as trust securities and this should be provided by an amendment of the legislature (para. 163).	
83	They should not rely even at the beginning on special funds such as *takavi* loans available only to a very limited extent (para. 173).	

	PUNJAB.	
84	There should be no departure from the present policy of cautious advance until the experimental stage is passed (para. 65).	No remarks.
85	Loans to directors should be restricted (para. 66)	
86	In the experimental stage the period of loan should not exceed 10 years; after that stage is passed, it might be extended to 15 years, subject to special precautions being taken to ensure regular repayment (para. 67).	The period should depend on the purpose of the loan and the borrower's repaying capacity (para. 219).
87	The Committee endorses the recommendation of the Royal Commission on Agriculture that the debentures of co-operative land mortgage banks, the interest on which is guaranteed by the local Government, should be added to the list of trustee securities (para. 68).	This is dealt with in our report (para. 221).
88	The system of colony auctions should be revised so as to discourage the speculative purchase of land by peasants with borrowed money (para. 73).	The question deserves the consideration of the Provincial Government.
	UNITED PROVINCES.	
89	In order to provide long-term credit, a land mortgage bank should be established based on a combination of co-operative and joint-stock principles. The bank's shares should be open to the public for subscription, but any person who may desire to borrow from it must first acquire an interest in it by purchase of its shares. There should be only one provincial land mortgage bank with a limited number of branches in important places, each operating in a separate area and agencies subordinate to each branch, wherever need for an agency exists (paras. 350—356).	This is dealt with in our report (paras. 217-235).
	BANKING.	
	ASSAM.	
1	Joint stock banks would be well advised not to take overdue interest into account in calculating profits (paras. 200 and 204).	This wholesome principle is supported.
2	In joint stock banks some restriction should be placed on the declaration of dividends until an adequate fund has been built up. No advance should be made against the shares of the bank. Amendment of the Indian Companies Act is necessary to secure these ends (para. 205).	This is dealt with in our report (paras. 704-705).

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	BANKING—*contd.*	
	ASSAM—*contd.*	
3	It is desirable that a certain ratio of the bank's resources should be kept in liquid form to meet the claims of depositors. It is also advisable to fix the proportion which paid up capital *plus* reserves bears to the bank's liabilities perhaps 10 per cent. Instead of legislation to fix these ratios, it might suffice if the half-yearly statement in Form G contained the information, the correctness of which the auditor could verify at the time of audit (para. 206).	This is dealt with in our report (paras. 706-711).
4	Depositors in joint-stock banks should receive a copy of the annual accounts (para. 206).	This recommendation is not approved.
5	It is preferable that accounts of joint-stock banks should be audited by a Government auditor (para. 206).	This recommendation is not approved.
6	In trade centres in Assam extension of banking facilities should be rather in the form of development of local Indian joint stock banks than in the establishment of branches of big commercial banks. Such banks should be brought into contact with the big Calcutta banks by opening up accounts with them and depositing gilt-edged securities so as to obtain cash credit or overdrafts for temporary accommodation or for facilities in cashing cheques (para. 230).	We do not desire to pass any judgment on the comparative advantages of independent local banks and branches of big commercial banks.
	BENGAL.	
7	Regulation of banking companies is necessary as it is a question of protecting not simply the share-holders, but also a much larger body of depositors (para. 465).	These are dealt with in our report (Chapter XXV).
8	Regulations that are found to be necessary and feasible in any other province should be extended also to Bengal. A banking company should be required to publish its balance sheet half-yearly instead of only once a year. A full and accurate statement of assets and liabilities operates as an automatic check against irregularities and abuses (para. 465).	
9	The hands of the Registrar of Joint-stock Companies should be strengthened, if necessary, to stop abuses and frauds on the part of promoters of banks, a few instances of which have come to the notice of the Committee. This, however, does not call for any measure peculiar to Bengal (para. 465).	No remarks.

10	One effect of prescribing regulations for the management of banks, both public and private, will be to give them a higher status than other credit institutions. Any other concern should not, therefore, be permitted to describe itself as a bank (para. 466).	This is dealt with in our report (paras. 678-682).
11	A distinction has to be made between a bank and a banker. A banker (and its vernacular equivalents such as "*shroff*" and "*mahajan*") is often a mere title of courtesy. If, however, he desires to avail himself of the privileges of banks, he should be required to conform to the regulations suggested in Chapter XIII (para. 466).	This is dealt with in our report (para. 682).
12	*Loan Offices.*—In view of the fact that branch banking is not likely to be developed in the province in the near future, it is desirable that these institutions should be improved and consolidated so as to be really useful to trade and industries (para. 486).	This recommendation is dealt with in our report (paras. 256-260).
	BIHAR AND ORISSA.	
13	Joint-stock banks should open more branches, or if that is impossible, associate with themselves as agencies registered *mahajans* and approved *shroffs* (paras. 417, 419, 423, 469).	This is dealt with in our report (paras. 142, 540 and 541).
	BOMBAY.	
14	In the *mofussil*, the question of banks changing their business hours during the busy season to suit the convenience of trade deserves consideration (para. 152).	This recommendation is supported.
15	Complaints of Indian firms of standing that they do not get facilities from exchange banks or even from the ordinary joint stock banks, for external trade deserve to be examined by the Central Banking Enquiry Committee (para. 153).	This matter is examined in our report (Chapter XVII).
16	It should be the policy of the central banking institution of the country to see that funds collected in different provinces are distributed according to the needs of each (para. 164).	It will be the policy of the Reserve Bank to regulate interest rates throughout India. It is not necessary to indicate what steps should be taken and what statistics are to be collected by the Reserve Bank.
17	In order to ensure that such a policy is duly followed, statistics regarding total deposits received and total advances made by the different banks in different areas should be collected and, if possible, published (para. 164).	
18	It is necessary to provide by law that the use of the term "bank" should be restricted to a person, firm or institution registering itself as a bank and doing exclusively what is ordinarily understood as banking (para. 286).	This is dealt with in our report (para. 682).

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	BANKING—*contd.*	
	BOMBAY—*contd.*	
19	Local agents of the Imperial Bank should be allowed wider discretion in the grant of advances (para. 307).	These are matters for the consideration of the Imperial Bank of India.
20	They should be thoroughly familiar with the language of the district and make an effort to come into touch with the commercial community of the place (para. 307).	
21	Advisory committees should be constituted as an experimental measure in a few selected branches of the Imperial Bank (para. 307).	
22	Even if some of the branches of the Imperial Bank do not pay, it should continue to maintain them in the general interests of the community (para. 307).	
23	The need for Indianisation of the staff in charge of such branches deserves to be emphasized (para. 307).	This recommendation is supported and is a matter for the consideration of the Imperial Bank of India.
24	Only in three places there are branches of the larger joint stock banks. The only banking organizations possible in small centres are urban and central co-operative banks or their branches (para. 307).	No remarks.
25	The Imperial, joint stock and co-operative banks may adopt a system of having part-time branches working two or three days in a week and city branches working a few hours on pay days (para. 307).	This recommendation is supported for the consideration of banks.
	BURMA.	
26	Banks in Burma should consider the provision of facilities for banking by post (para. 594).	This recommendation is supported for the consideration of banks.
27	Statistics of the circulation of paper money in Burma should be obtained (para. 781).	If Burma is separated from India, these questions will have to be carefully considered.
28	A true central bank should be established for Burma (assumed to be separated politically from India) and should hold the banking reserves of Burma and issue the only paper money of the country as its own bank-notes, and establish a number of branches all over Burma through which other banks, including private banks and co-operative banks, and money-lenders could be financed. In case Burma is not separated from India the best possible approach to the same arrangement should be made (paras. 804 to 806).	

29	The Committee have also recommended that the spreading of false rumours likely to undermine public confidence in a banking institution should be punishable with a deterrent sentence.	The best protection for banks against such rumours is publicity regarding their position and sound balance sheet. The Reserve Bank may also help by issuing statements to the public on such occasions.
	CENTRAL PROVINCES.	
30	The need for restricting the use of the title " Bank " is urged (paras. 2112 and 2113).	This is dealt with in our report (para. 682).
31	The Committee have recommended the enforcement, by law, of certain restrictions on the business of banking; that is to say:— (1) the maintenance of an adequate cash reserve; (2) a minimum paid up capital; (3) the regular publication of accounts; (4) prohibition on granting loans to directors and superior employees of the bank, or to concerns in which the shareholders and directors themselves are interested; (5) fixation of the amount of loan which can be advanced to any individual person concerned so as to prevent the concentration of the risks of banking in one quarter (paras. 2113, 2120, 2121 and 2128).	This is dealt with in our report (Chapter XXV).
	COORG.	
32	A bank or a branch should be established at Virajpet (paras. 59, 87, 91) . .	This is a matter for the consideration of banks.
	MADRAS.	
33	There is clear need for a Reserve Bank which will re-discount bills (para. 435) .	We agree.
34	Nidhis should be developed in strict conformity with the Indian Companies Act (paras. 455, 462).	
35	Their share capital should not be withdrawable (para. 462)	These recommendations are dealt with in our report (paras. 264-265).
36	Five per cent. of their share capital shall be paid up on allotment (para. 462) .	
37	They should not lend on the security of share capital (para. 462)	
38	They should encourage long-term recurring deposits and savings deposits (para. 462).	
39	They should develop a strong share capital (para. 462)	

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	BANKING—*concld.*	
	MADRAS—*contd.*	
40	They should set aside a considerable portion of profits each year for their reserve funds (para. 462).	These recommendations are dealt with in our report (paras. 264-265).
41	They should maintain current accounts only when they are in a position to provide the necessary fluidity of funds (para. 462).	
42	Their position would be strengthened if they could be federated somewhat on the lines of the co-operative central banks with an apex bank (para. 462).	
43	No company should be registered as a bank unless it is provided that profits should be distributed to shareholders only after all preliminary and floatation expenses have been paid and adequate provision has been made for depreciation and reserve funds (para. 502).	These are dealt with in our report (Chapter XXV).
44	An annual statement should be submitted in a form to be prescribed (para. 502) .	
45	Embarkation in any mercantile business excepting in the course of realizing assets should entail cancellation of registration (para. 502).	
46	The branches of the joint stock banks in smaller towns must be on a cheaper scale than the ordinary branches of the Imperial Bank (para. 520).	No remarks.
	PUNJAB.	
47	The Committee are in favour of the creation of a Reserve Bank, provided, firstly, the Bank's complete independence is placed above suspicion and secondly, all the weightier financial interests, including co-operative banks, are suitably represented, in the constitution and control of the Bank (para. 245).	This recommendation is dealt with in our report (paras. 605 and 606).
	UNITED PROVINCES.	
48	Joint-stock banks should allow indigenous bankers to overdraw for short periods on the security of equitable mortgages (para. 479).	The recommendation is not supported.
49	The existing banking facilities being unequally distributed, diffusion and not competition should be the aim in opening new banks or branches. In places where there is not sufficient business for a branch, temporary branches and periodical " counters " would be of great advantage (paras. 529-532).	No remarks.

50	Suitable banking legislation and the appointment of Government bank examiners may prove at present possibly the best means of strengthening the banking system and stimulating the banking habit (para. 533).	This recommendation is dealt with in our report (para. 723).
51	There should be local clearing houses in large towns and a large provincial clearing house at Cawnpore which should act as a country clearing house (para. 534).	We understand that clearing houses have already been organised wherever necessary.
52	In the existing conditions of the country a clearing house might also act as a bill collecting agency (para. 534).	This recommendation is not understood.
53	The institution of the Reserve Bank is recommended, but if it is established it would modify several suggestions made above, *viz.*:—	
	(*a*) the Reserve Bank will provide all clearing house facilities;	
	(*b*) supply bills and currency transfers will cease to exist and the Reserve Bank will provide necessary remittance facilities;	
	(*c*) a branch or agency of an approved bank will come into existence in every place where there is a currency chest. The Reserve Bank will thus lead to the much desired diffusion of banking throughout the province (para. 535).	This recommendation is dealt with in our report (paras. 605 and 606).
	MISCELLANEOUS.	
	BENGAL.	
1	*Extension of banking facilities.*—Till the borrowers are better educated, the banking business in mufassal centres is to be left to loan offices, co-operative banks and indigenous bankers, each with a distinct sphere and function (para. 498).	We are not in favour of limitation of the spheres of operations of various banking agencies except to the extent we have indicated in our report. The Bengal Committee themselves admit that the present conditions do not warrant any hope of ensuring such a well marked division of functions.
	BIHAR AND ORISSA.	
2	Contractors for Government and public bodies should be allowed to arrange for the payment of their "on account" bills through a bank, which would finance them on the security of their contract (para. 168).	This recommendation is supported (para. 322).

Serial No.	Recommendations made by Provincial Committees.	Our recommendations.
	MISCELLANEOUS—*contd.*	
	BIHAR AND ORISSA—*contd.*	
3	Government should introduce the practice of paying its employees and others by cheque (para. 479).	This recommendation is supported and it is hoped that the various Governments would take steps to give effect to it as early as possible, especially in case of employees drawing more than Rs. 100.
	BOMBAY.	
4	The suggestion to have pawnshops run by Government, co-operative societies or pawn-broking companies is not approved (para. 167).	This recommendation is accepted.
5	Cheques should be accepted in payment of land revenue, local rates and taxes. The procedure of banks for encashment of cheques should be modified so as to expedite payments on account of cheques (para. 191).	These recommendations are supported in principle.
6	The re-introduction of the one rupee currency note is recommended (para. 302) .	This being a currency question we have no remarks to offer.
	BURMA.	
7	A Pawnbrokers Act should be passed to apply to all pawnshops in Burma (paras. 577 and 578). Periods of redemption outside municipalities and notified areas should be fixed by rule (para. 581). Charges for interest should be fixed by a table and should be on a reduced basis for small loans for short periods (paras. 583, 585).	These are matters for the Provincial Government.
8	No attempt should be made at present to restrict the working of foreign banks or insurance companies in Burma (paras. 778, 779).	This is dealt with in our report (paras. 467-469 and 658-660).
	CENTRAL PROVINCES.	
9	*Banking Education and Commercial Training.*—There is urgent need for facilities for education in banking and commerce. The Committee have recom-	

	mended the addition of banking and co-operation as an optional subject in the Vernacular and Anglo-Vernacular Middle Schools and in the High Schools, in order to enable the sons of bankers and money-lenders and others to acquire knowledge in modern methods of banking (paras. 2133-2135).	These are dealt with in our report (Chapter XXVI).
10	The Committee have also recommended the establishment of a University course in the science of banking and commerce to enable undergraduates to obtain training as bankers, so that they may assist in the modernization of indigenous banks and become fitted for employment in the co-operative banks and other banking institutions (paras. 2136-2137).	
	MADRAS.	
11	The quality of the audit done by practising auditors should be improved (para. 433).	These are dealt with in our report (paras. 718 and 762-766).
12	The certificate to practice should be granted on much stiffer terms than at present (para. 433).	
13	A society of auditors should be formed to control the work of public auditors (para. 433).	
14	Banking should be made an optional subject for Economics and Commerce Degrees in the Madras University (para. 434).	
15	The post of the Registrar of joint stock companies who will have to deal with the registration of bankers should not be subsidiary to that of the Inspector General of Registration (para. 434).	This is a matter for the consideration of the Provincial Government.
16	He should scrutinize with care the various articles of association and the balance sheets which come before him (para. 434).	We agree.
	UNITED PROVINCES.	
17	*Nepalese trade.*—What the traders in Nepal need most is not finance but protection from robbery. They should also be permitted to purchase land in Nepal (para. 554).	No remarks.
18	The formation of a provincial bankers' association is strongly recommended (para. 479).	This is dealt with in our report (paras. 620-621).

The Indian Central Banking Enquiry Committee

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M. C. Kothari, Raipura Road, Baroda.
The Hyderabad Book Depôt, Chaderghat, Hyderabad (Deccan)
S. Krishnaswami & Co., Teppakulam P. O., Trichinopoly Fort
Karnataka Publishing House, Bangalore City.
Bheema Sons, Fort, Bangalore City.
Superintendent, Bangalore Press, Lake View, Mysore Road, Bangalore City.

AGENT IN PALESTINE :—Stelmatzky, Jerusalem.
* Agent for publication on aviation only.

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Minority Report of Mr. Manu Subedar.

CHAPTER I.

PRELIMINARY.

1. The terms of reference to the Committee were as follows:—

"To investigate past records and existing conditions of banking in India including the organisation of the Money Market and to consider the steps, if any, that are feasible and desirable under the following main headings:—

(*a*) the Development of Banking with a view to the expansion of indigenous, co-operative and joint stock banking with special reference to the needs of agriculture, commerce and industry;

(*b*) the Regulation of Banking with a view to protecting the interests of the public; and

(*c*) Banking Education with a view to the provision of Indian personnel in adequate numbers and with the necessary qualifications to meet the increasing needs of the country for a sound and well managed national system of banking."

WHY I DECIDED TO WRITE A SEPARATE REPORT.

2. It was with much hesitation and many regrets, that I came to the decision, almost at the conclusion of the Committee's work, to write a separate report. The prospect of one member, who breaks away from nineteen colleagues and who has to plough the whole field by himself, could never be very cheerful. It is not that I have more facts, or indeed more of anything than my colleagues. Nor would I have it understood for one moment that all my colleagues had any other outlook except a genuine concern for securing those ends of banking progress, which were indicated in the terms of reference. Representing different interests and different types of experience in life, we came together for the common purpose of studying the phenomena and of devising measures, both remedial and progressive. At a certain stage, I found myself differing from my colleagues with regard to the nature of the problem, the extent and avenues of information bearing on it, and the measures, which it would be in the interests of India to adopt. I did not feel confident that a closer discussion would lead to a coalescence, even if there had been opportunities for such discussion. Under the circumstances I felt that it would secure better public advantage, if both the problem and the lines of progress contemplated were stated separately to enable those, who would have to make public decisions on these subjects, to choose for themselves.

3. Mention is called for with regard to two outstanding features of procedure associated with our enquiry,—features, which were unprecedented and about the success of which, there would be legitimate public curiosity. The first unusual feature with regard to our Committee was the association of foreign " experts ". I am using the word " experts " in inverted comma throughout this report, so that its connotation may be confined to whatever it was intended to be by Government in their communique to us announcing, that foreign " experts " would be associated with our enquiry, that they would examine all material, consult with us, examine our conclusions and have the right to make a separate report.* I wish it to be understood that no reflection is intended or involved on the gentlemen, who came and who discharged their duties to the best of their light. I am only explaining that the procedure was novel and unprecedented. They were not members. They were not advisers; else they would not have claimed, or been given a right to make a separate report. Personally, I would not be honest with myself, if I did not indicate that I derived no help from them. On the contrary, on many occasions the manner; in which these gentlemen expressed themselves became a matter of puzzle and mystery to me. That there were fundamental differences, both of outlook and method between them and myself, would be indicated at various places in the body of the report.

4. The next unusual feature was the appointment of the Provincial Committees, who examined the details relating to a part of the total enquiry, without any direct link with the Central Committee. It is true that a model questionnaire was given to them, but this was before the Central Committee had discussed among themselves, or envisaged the problem. It is true that their reports were available to us. But the written word cannot always convey the impressions formed, and the impression formed by others cannot always be arranged in thought perspective in a satisfactory manner. There are obvious difficulties in drawing general conclusions where the terms may not have had the same meaning in the minds of different Committees,* who in their turn were faced with an overwhelming variety of statements by witnesses not used to technically

* *Sir George Schuster.*—" The intention and the desire is that the foreign expert should work in close co-operation with the Central Banking Enquiry Committee and that there should be a common and agreed report. The exact procedure for recording the foreign experts' views is actually now under discussion. There is no disagreement between the Central Banking Enquiry Committee and the foreign experts, or between the Central Banking Enquiry Committee and myself as representing the Government of India, on that subject. I cannot inform the Honourable Member exactly what form the record of the views of the foreign experts will take. It is simply a question of practical convenience. One of the foreign experts actually has to leave India on the 5th February, and it may be necessary to obtain some written record, so as to incorporate his particular ideas, before he goes. But the general intention is that the foreign experts, as I have said, should work in close co-operation with the Central Banking Enquiry Committee, and I have every hope that there will be no difference of opinion between the two bodies "—(Reply to starred question No. 71 of Mr. B. Das in the Legislative Assembly on 27th January 1931.)

well defined description. It is a pity that the Provincial Committees were held down to a rigid limitation of time in preparing their report. Nevertheless the brilliance of some of the reports and the very hard work, which must have been put in by many people in connection with them, in the systematic presentation of facts hitherto unsifted, reflects the highest credit on the Provincial Committees.

I am mentioning these two extraordinary circumstances in connection with our Committee not with a view to criticise the procedure myself, but with a view to attract public attention to them, to enable the legislature in the appointment of public enquiries in future, to call for relevant material and to decide on the utility of these expedients.

5. It is necessary to state that, to some extent, Provincial Committees as well as the Central Committee had to base wide generalisations on the basis of slender data. It is a pity that the collection of statistics in India outside those, which are needed for direct administrative use, is defective. Serious gaps have been discovered with regard to facts relating to the economic life of the people in many important directions. Some of my colleagues have questioned the reliability of other facts, which have been put forward in some Provincial Committees' reports. Provincial Committees have shown themselves in many places unable to get at the facts. The consequence has been that, after an enquiry of this kind, quantitative results in many directions are not available. From conclusions involving qualifying phrases like " rarely, in some cases, frequently, generally ", one could derive a limited help in

Maulvi Muhammad Yakub.—Will the Honourable Member tell the House why the foreign experts were invited; by whom they were invited, and who bears their expenses?

The Honourable Sir George Schuster.— . . . It was always made clear that foreign experts would be associated with the Central Committee in making their final recommendation. I gave this Assembly full information of the whole plan at all its stages. . . The cost of having these foreign experts out will not be great because in practically all cases these gentlemen, although they are very busy and important people, have agreed to come free of all cost except their own expenses.—(Supplementary question to starred question No. 71 and reply in the Legislative Assembly on 27th January 1931.)

* Compare the following statement regarding the number of indigenous bankers: —

(*a*) *Bombay.*—According to the census of 1921 there were in the Presidency 26,303 bank managers, money-lenders, exchange and insurance agents, money-changers and brokers and their employees. Actual figures of bankers are not available. The number of indigenous bankers including money-lenders is roughly estimated at 20,000. (Bom., para. 254.)

(*b*) *Bihar and Orissa.*—The number of those doing business of a shroff and nothing else will not for the whole province exceed 10; the mixed shroffs will not number more than 150. These figures are however based on impressions and not on any statistical data. (B. & O., para. 368.)

(*c*) *Bengal.*—Number *cannot be ascertained.* There are only a few indigenous bankers and their number is decreasing. (Ben., para. 375.)

(*d*) *Assam.*—Statistics as to the number of such bankers are *not available.*

(*e*) *Burma.*—The total number of Chettiyar offices in Burma has been estimated by the Committee at 1,650. Of this number roughly 360 are in

thought. As the country should be in equally unprepared condition when these matters come up again, as they must, either for legislation or for fresh enquiry, it is essential that more reliable data should be available than has been the case on this occasion. Boards of Economic Enquiry exist in some provinces and have been asked for by several other provinces. It is recommended that they should be set up, but with two distinct provisos. It is essential that a poor country like India has got to be forewarned on the question of cost. It may be possible to keep down costs by utilising young undergraduates and graduates, who could turn out very useful work, if properly directed. The other condition is that, the energy available should be spent after the collection of economic facts according to some definite all-India programme in a manner in which the results of one province could be comparable with another. So far as the Central Committee was concerned, they also suffered from lack of information, but in other ways. A questionnaire was sent to many parties, whose experience and whose reputation would justify the belief that they would have valuable information and views to offer. It was sent out to all banking institutions in the country, Indian and foreign, but the response was somewhat poor. Whether witnesses were frightened at the formidable questionnaire, or were unwilling to disclose information, which was in their possession, or lacked the public spirit to assist an enquiry intended to secure public advantage, it would be difficult to say. The unwillingness of parties to come before our Committee in oral evidence may be intelligible, but the unwillingness of banks to make information available, without which the work of the Committee cannot go on, seemed to be very striking. Two managers of British banks, representing the Exchange Banks Association, appeared before us. Their evidence will indicate the paucity

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Rangoon, 1,083 in Lower Burma excluding Rangoon, 195 in Upper Burma excluding the Shan States, and 12 in the Federated Shan States. Bur., para. 456.)

(*f*) *Central Provinces.*—There are a number of big firms, which are popularly known as banking houses, though only one of them conforms to the definition of indigenous banker. (C. P., paras. 1911-12.)

(*g*) *United Provinces.*—The Committee estimate that there are in the whole province about 250 indigenous bankers or sarrafs who are willing to receive deposits. The number of modern indigenous banking firms is 7. (U. P., paras. 133, 419.)

(*h*) *Punjab.*—According to information obtained mainly from Income-tax officers, the total number of indigenous bankers in the province is only 66, distributed over 11 districts. There are 18 districts with not a single indigenous banker. (Pun., para. 187.)

(*i*) *Central Areas.*—Only 29 firms in Ajmer-Merwara named in the report are regarded as real indigenous bankers. (C. A., para. 197.) Of the 100 bankers and money-lenders who pay income-tax in Delhi province only 43 are recognized as professional shroffs or indigenous bankers, although besides these there are over 100 persons who regularly buy hundis in the market. None of the 43 firms deals exclusively in banking. (C. A., para. 204.) In the North-West Frontier Province money-lending and banking trades are not confined to Hindus. Quite a large number of Muslims are in the banking line and have their branch offices in Kabul. Local inquiries show that in the market only 29 houses are considered as real bankers among the Hindus. Very few of these do banking business exclusively. (C. A., para. 212.)

of information, on which the Committee had to proceed. Neither the Dutch nor the Japanese nor the American interests in foreign banks sent any communication to us. With regard to foreign banks generally, my efforts to secure information started fairly early. How unsuccessful they were, is indicated in one or two places in the body of the report and would be found from Annexure No. 1 to the report, in which is given correspondence on this subject with the office, which speaks for itself.

6. The terms of reference require the " development of banking "—an expression, that has been interpreted by the foreign " experts " as meaning the growth of banking in the geographical area known as India. It is only on such an interpretation that the European view with regard to adequacy of facilities and remarkable advance during the last few years is based.* It is on this basis, again, that the general advice to leave matters to natural evolution and to interfere as little as possible, is derived. Such an interpretation can be understood, but is wholly unacceptable. The problem, to my mind, is twofold. On the one hand, there is the unprecedented phenomenon of the foreign control of banking resources in India, of such control growing and strengthening in many directions and menacing Indian institutions. There is, on the other hand, the question of necessary readjustments inside the country to secure orderly advance and to secure considerable advance, which has to be made before Indian conditions could at all compare with other countries in the matter of the provision of banking facilities. Different remedies are clearly indicated with regard to these two matters. It was impossible to treat the subject as a whole without making the distinction at every stage. I have, in writing this report, thought it necessary to indicate the problem wherever possible and to indicate a remedy wherever a remedy was in sight. I have tried to do whatever was possible to do under the circumstances in view of the lack of information and the shortness of time available. I have, in doing this, drawn upon myself the difficult task, which men, who recommend any changes, have upon their

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* " Generally speaking, it cannot be gainsaid that whatever deficiencies there may be in the banking position in India, they are much more the result of the fundamental circumstances, which dominate the financial and economic life of India, than of lack of banking facilities. We are of opinion, that a strong and keen competition exists in banking. In so far as no banking possibilities are available, no modern banking facilities can be expected. No bank, working on sound principles, can be expected to extend its activities unless there is a fair prospect of reasonable profits being made in the near future."—(Foreign " Experts " Report.)

" It is our opinion that the immediate problem in connection with banking is not a question of expansion but of organisation, consolidation and coordination."—(Foreign " Experts " Report.)

" The Committee mention in conclusion 1 (*a*) that the number of principal towns which possess a bank or a branch or agency of a bank, was only 339 in 1928. If we consider that in 1919 the number was only 185, so that during this comparatively short period of ten years, there has been an increase of 154 or 83 per cent. the figures seem to be not unsatisfactory and considerable extension of banking facilities has been achieved."—(Foreign " Experts " Report.)

head. Those, who are content with existing arrangements, have necessarily a smug satisfaction. I have felt that, where the deterioration is great, the remedies employed have also got to be heroic, and yet I have kept myself within the bounds of great moderation with regard to the measures suggested, particularly for the first problem. In a field, which had not been hitherto examined, it was inevitable that confusion beyond human calculation should be disclosed. Defeatism and helplessness must, however, be avoided. In the discussion with the foreign " experts ", it was sometimes urged that everything was alright and it should not be in India's interests to disturb things, and that it was better to leave them to natural development and evolution. Sometimes I found that it was urged that the east was east and human nature was different. In our discussions, particularly on agricultural indebtedness, it was sometimes said that the problem was so far gone, that little could be done to remedy it. Often the advocacy of progressive measures was damped by the administrative complications and difficulties, which they would raise. I have tried in this report not to abandon a problem because of its difficulties, not to reject a remedy, because there were obstacles. I have done so merely for the reason that further enquiry into the subject should not be shut out. The failure of the Banking Committee to produce results, which would collectively effect an improvement with regard to both sides of the problem, as stated above, would be tragic. I have assumed that there is in India a will to change and also that there is nothing in the political institutions of the country to prevent measures indicated from being adopted.* To the extent to which India's constitution does not permit such measures, the results, which are foreshadowed, would not be achieved, and the evil, which it is sought to remedy, will not be remedied.

7. Some esteemed friends of mine asked me, whether a separate report would be of any use. In the long perspective of human affairs, everything, that is created whether jointly or separately,

*" During the last ten years, in one branch of commerce and industry after another, the evidence has been unmistakable that important sections of Indian opinion desire to secure the rapid development of Indian enterprises, at the expense of what British firms have laboriously built up over a long series of years. There is nothing surprising in the fact that national consciousness should thus have found expression. Indians who desire to see the growth of Indian banking, Indian insurance, Indian merchant shipping, or Indian industries find themselves faced by the long-established British concerns whose experience and accumulated resources render them formidable competitors. In these circumstances, it may seem to them that the ground is already occupied and that there can be no room for the growth of Indian commerce and industry until the British firms which are already in the field can be cleared out of the way. But, however natural such feelings may be, they might lead, if allowed free scope, to serious injustice, and partly as a consequence of this and partly for other reasons they are fraught with grave danger to the political and economic future of India. We feel real apprehension as to the consequences which may ensue, if the present attitude of mutual suspicion and embitterment is allowed to continue and to grow worse. For this reason we regard it as of high importance that the attempt should be made now to arrive at a settlement which both parties can honourably accept." (Despatch of the Government of India on constitutional Reforms, 1930.)

gets absorbed in the general flow of the life of the people. I have already indicated why the writing of a separate report became necessary. I have looked upon the problem as an Economist. The two great beacons lighting my path were an impoverished mass of people in the country on the one hand, and powerful vested interests on the other hand, both Indian and foreign. I shall be content if I have succeeded, even fractionally, in establishing a direct relationship between these two facts and in pointing out how in the economic field, the cumulative and ever accelerating action of several tendencies would be dangerous to the life of the people and to the well-being of agriculture, industry and commerce. I have tried to show on what lines "the development of banking", "protection of the interests of public", and "a sound and well managed national system of banking"* could be secured, and what co-ordination of efforts all round would be necessary.

I have pleasure in acknowledging the unfailing courtesy extended to me throughout the existence of the Committee by the Secretaries, Messrs. Ayangar and Masani, and by the Office Superintendent, Mr. Seth, and the staff under him. But my thanks for the preparation of this report are due to my personal assistant, Mr. C. V. Sankar Narayan, without whose efficient work and loyal service, I could not have been able to finish the work in three weeks.

* *Vide* Terms of Reference.

CHAPTER II.

NATIONAL POLICY IN BANKING.

8. There have been committees and commissions in India involving the examination of economic matters in a much more restricted sense, such as public expenditure, taxation, irrigation, famines, etc. There have been others, such as on currency and exchange and railways. In these latter the divergence of Indian and foreign interests became evident and the Indian point of view differed materially from the foreign point of view.

The divergence of Indian and foreign interests was much greater in the case of shipping and it is remarkable that the Mercantile Marine Committee, which had been appointed, unanimously came to the following conclusions:—

> "In other countries, which have desired to develop a National Mercantile Marine, one direction in which action has been taken to this end has been to reserve the coasting trade for the subjects of the particular country concerned."
>
> "The coastal trade of a country is regarded universally at a domestic trade in which foreign flags cannot engage as of right, but to which they may be admitted as of grace."
>
> "They (the opponents of Indian claims) point out that there has been no complaint regarding either the efficiency or adequacy of the services offered by existing shipping lines (British) and consider it would be a mistake to substitute for them an agency (Indian) the efficiency of which is problematical and in any case has yet to be proved."
>
> "In any case, it seems unfair to pronounce an adverse judgment as to the ability of Indians to run shipping companies as successfully and efficiently as the present concerns, until they have been given an opportunity of owning and managing ships under more favourable conditions than those prevailing to-day. Indians have proved successful in other technical trades in which a short time back, they possessed little or no practical knowledge or experience, and we see no reason why, given a favourable opportunity, they should not prove equally successful in the shipping trade."
>
> "What we wish to provide for in our coastal trade regulations is that after a time the ownership and controlling interest in the ship or ships for which licenses are required shall be predominantly Indian and we think that this qualification should be held to have been fulfilled if a ship conforms to the following conditions:—(*a*) That

it is registered in India, (*b*) That it is owned and managed by an individual Indian or by Joint Stock (public or private) which is registered in India with rupee capital, with a majority of Indians on its directorate and a majority of its shares held by Indians, and (*c*) That management of such companies is predominantly in the hands of Indians."

9. There seems to be a family likeness between the points urged in relation to shipping and the relation to banking, particularly in the statement of the Bengal Chamber of Commerce on this question. Their advice to Indians was—

"The soundest policy is quite clearly to concentrate all available investment of money in the sphere of economic activity from which external capital has always held aloof and will continue to hold aloof."

Commenting on this, a well-known publicist in India* says:—

"In plain language, it means that Indian capital should not be invested in those spheres, in which British traders and industrialists have already entered in India. It is needless to attempt to refute a plea so barefacedly selfish."

He further says:—

"The old and the familiar desire to safeguard the interests of Indian consumers by dumping on them cheap foreign goods and utility services is re-stated in the form of a new proposition that reservation of coastal trade will result in rise of freights to the disadvantage of Indian shippers and consumers."

He quotes with approval the Chairman of the Scindia Steam Navigation Company, who speaks the bare truth when he says that—

'"it is futile to argue with those who never fail to discover signs of India's economic prosperity in the continuous process of India's economic exploitation by foreigners in league with an alien bureaucracy."'

'"The £ *s. d.* have such magic effect on the British mind, that foreigners during recent months have shouted that they are Indians,—sons of the soil,—Nationals of the Country. With England as his Home, a European subject of the Crown appearing before the Indian Criminal Courts of Justice, insisting upon special benefits like those of the Lee Loot in the Civil and other Services on the ground of his colour, prestige and efficiency, always anxious to vote with the alien Government of the land not only for stifling the legitimate aspirations of Indians but also for forging new fetters,

* Mr. V. Ramadas Pantulu.

—both economic and political,—for preventing them from advancing in all directions as free citizens of a free country, it is a mockery, nothing but cruel mockery, for the European in India to claim that he is the National of the country only when his pocket is touched." '

10. I have brought in the question of the Mercantile Marine to show the parallel, as far as it goes, and to show the views on the one hand of European commerce and, on the other hand, of reputed publicists in India. With regard to the banking problem also, the position is that the field is well covered by powerful alien interests and not merely in the foreign exchange business, but with regard to the internal trade. It will be noticed that in the opinion of Indian witnesses, and indeed of a certain number of members of our Committee, the position cannot be improved unless the field for internal banking was reserved for Indian institutions. Such reservation in the field of shipping has been regarded as discrimination as it attempts at 'expropriation' and is likely to substitute inefficient and costly Indian service in place of efficient and cheap foreign service in the staff. Echoes of these arguments were heard in the course of examination, particularly when the foreign "experts" threw in the whole of their weight against any such proposals. They did this on the ground of pure finance and pure banking, as if, in any country except in the mental laboratory of thought, pure finance could be isolated from practical considerations. The existence of an economic man and the dominance of pure economic motives, which formed the basis of certain schools of political economy, were long ago set aside in practice as well as in thought, and the idea put forward by List in his 'National System of Political Economy' has dominated the world. Economic considerations are now taken for human groups living within geographical areas and linked up by close economic ties, much closer for the units within the area amongst themselves than for these units with any people outside the area. The idea that in essential activities, on which the welfare of agriculture, commerce and industry would depend, such as banking is, one can think merely of the service from the point of view of the bank's client and from no other point of view, is ridiculous. From the national point of view, the question of self-sufficiency, the question of correlation with other departments of economic activity, the question of investment in bank shares and the retention of profits in this country, the question of building up the necessary experience and technique in India, and, above all, the question of the helping of Indian nationals in handling the trade of their own country in preference to the help going to foreign nationals, cannot be ignored merely in favour of the consumer of a service.* The consumers' own interests in the long run require in

* "Certain fundamental differences of opinion could not be reconciled. We have therefore been compelled to avail ourselves of the right, granted in our terms of reference, to submit a separate report. We endeavoured to

the matter of all public utility services safeguards from the point of view of the community, in whose economic future he has a share. To say that India is well-equipped with banks, because there are foreign banks operating in this country, would be a symptom of that bankruptcy of national policy, from which this country has suffered in the past, and which would, if persisted in, lead to progressive economic deterioration.

11. Even if one were to take the restricted view of banking as essentially a service, regulation in the interests of the people would be justified and called for on the parallel of similar regulation with regard to public utility services. Such regulations involve not only license by some public authority, but various provisions for the protection of the public including either the maximum charge made, or the maximum dividend, which could be paid. The opposition of the foreign " experts " and of European opinion, which obviously they reflected, to the regulation of banking of any kind, would, therefore, be assessed at its proper value. There is not the slightest doubt in my mind that the opposition arose primarily from the fear that, whatever the regulation would be, it would be enforced by a national authority in India and such national authority would not view with favour the preponderating control of India's banking resources by foreign interests, the expansion of such interests, or the disabilities of Indian concerns through foreign monopoly and concerted action.

Since the bias of advocates of a national policy is in the direction of building up Indian banking and release this country from dependence on foreign institutions as well as retain both profits and experience in India, the foreigners all along the line stressed the convenience of the public from a cheap and efficient service, and the point of view, therefore, of the consumer. But they were not prepared to give their assent to regulation of banking even on a restricted basis as in the case of utility services, illustrated by the provisions of the Indian Electricity Act.

12. The Indian desire to expand a concern under Indian control has found expression not only in views expressed from the Indian Chambers of Commerce, Industrial and Commercial conferences, speeches and discussions in the legislature, but also in authoritative enquiries, such as the Industrial Commission, the Fiscal Commission, the External Capital Committee, and the Mercantile Marine Committee, particularly in the Indian minority views attached to some of the reports. Looking through this, the conclusion is unavoidable that what Indians have sought in the past has been

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take into account the specific circumstances prevailing in India and to adjust our views accordingly, but we cannot accept recommendations, which are, in our opinion, unsound and contrary to banking principles which ought to be adhered to under all circumstances and in all countries. Our conclusions are based on these principles and we cannot concern ourselves with ambitions or desires of a political or nationalistic character.'—(Foreign " Experts " Report.)

a fair field and opportunity to come in on terms equal to those enjoyed by the foreign business,—a fair field, where foreign business will not strangle them by unequal competition,—and the desire to retain the profits of different kinds of enterprise in this country. It is also noticeable that as a rule behind these aspirations, both in the matter of opinion and expedients, programmes and policies already attempted and acted upon in foreign countries were kept in mind, and support was derived from national action, wherever possible in the United Kingdom, and, failing that, in other countries.* The whole trend was against the open door, against free trade in the form of free and unrestricted opportunities, even preferential opportunities to foreigners, against the suggestion that the field was equally open to the Indian, who laboured under many handicaps. The gravamen of the complaint expressed in the Indian point was that there was no national policy, that, without a deliberate national policy and without the creation of the atmosphere, in which Indian enterprise could prosper, the outlook was hopeless for the growth of Indian enterprise. It is stated that the denial to Indians of a reasonable chance created the hated phenomenon of exploitation. Advantages exist in operations in India in the nature of things for British enterprise, both against the Indian and against all foreigners. But, where such advantages were increased by the adoption of a national policy, such as protective tariffs, etc., Indian opinion soon developed the demand for reservation and for preferential rights for Indians. It also led to suggestions for restriction against the activities of foreigners in India and for a discrimination in favour of the Indian.

13. Banking, which is after all one department of business enterprise, cannot escape the particular application of these views held in India very generally, and while I am not quoting extensively

*" To sum up, the integration movement in Empire banking is explained by the dominance of London in the Imperial financial organization. The position of the Imperial banks, controlled and capitalized from London, is thus to some extent vindicated in the economic sense, though it does not afford much consolation to Nationalist feeling in the Dominions, which in South Africa at least is distinctly favourable to the creation of more local banks. In the later stages, the movement has led to the direct control of Imperial Banks by the great English institutions, but this development brings few unknown difficulties essentially different from those already experienced in the nineteenth century and up to the present. Connections existed when the Imperial Banks first began to operate in London, nearly a century ago, and perhaps the most important difference at present is not that the connections are firmer and more numerous, but that they are more obvious. The Imperial Banks have in the Empire, on the whole, a long and honourable record of public service, and if objection is felt overseas to their incorporation in larger English banks, the remedy, either in the creation of more local banks or in the more strict local supervision of the existing institutions, is at hand. From the regulatory provisions of a well-drafted local Bank Act (now long overdue in India, Australia and Africa), the Imperial Banks have nothing to fear, and the Central Banks, the only essentially new factor in the position, will find it difficult to exercise fully effective control over them while they depend upon London so largely as they do at present."—(" The Imperial Banks," page 261, Baster.)

from sources indicated above in support of the proposals, which I have made, I have thought it necessary to point out that the proposals are in my opinion in the main the application to the field of banking of the general principles of policy, which have been consistently indicated in views of Indians on this subject. They are only modified by the peculiarity, which banking has in contrast with other enterprises, but I conceive the importance of national policy in banking to be greater than in other fields of enterprise, as banking is really the key to most enterprises. It is the machinery, by which savings get mobilised and distributed both with regard to the factor of time and with regard to the factor of space. A weak and defective banking system has proved disastrous for countries with highly developed enterprise in other directions. Failures of banks affect many enterprises and many more men in the community directly and indirectly than failures in any other individual industry. If the ground for urging a progressive national policy and close vigilance on Indian interests against the competition they may have to bear from foreign interests either working in India or abroad, are valid in the field of any particular industry, they are infinitely more important as applied to credit institutions, to which all enterprises in agriculture, trade and industry look up for their finance.

14. The rejection of the proposal for shutting out Indian deposits from foreign institutions was advocated by the foreign "experts" on the ground of pure banking. I will not be so uncharitable as to suggest that it was rejected, because their respective national interests would suffer. I would accept their explanation that when they came to India and looked at Indian problems, they could only look at them in the region of pure finance and that it would have required from them more than ordinary imagination and understanding to place themselves in the position of Indians and to suggest measures on national grounds. Such a proposal had been made to them by more than one member in the course of their examination, but their reply invariably was that they were not concerned with any ground other than those of pure banking. Their position is intelligible, but I have had considerable difficulty in understanding the position of the Indian members of the Committee. If the proposal for the prohibition of deposits in foreign institutions, which had the support of almost all Indian witnesses, who appeared before the Committee, were turned down by them as unsound, an alternative or modified proposal might have been expected from them. When the proposal, however, comes to be rejected on the ground of pure banking, the position needs some examination.

On pure banking grounds the co-operative movement in India would never have been established, assisted financially, subsidised and encouraged in every conceivable manner. Nor would any one have ventured to suggest further concessions and newer forms of encouragement. The movement came into existence, because it was

conceived to be essential in the interests of the Indian nation and for the economic welfare of Indians. In the same manner the industrial corporation suggested in the majority report, and the scheme of an exchange bank, in which the state will subscribe either all or some shares, and to which the state will give the monopoly, would be altogether indefensible on grounds of pure banking. As a matter of fact they were condemned on these very grounds by the foreign " experts ". Similarly the encouragement of branch banking in India by the subsidy, which the Imperial Bank has enjoyed, and the suggestion for the continuance of such subsidy not only to the Imperial Bank, but to other banks in future, were also definitely censured by the foreign " experts " on grounds of pure banking and have been nevertheless thoroughly endorsed by the majority Committee. The need for the majority directors in a banking institution being Indian, for controlling interests in a banking institution in India being in Indian hands, for branch banking in the interior being confined to the Indian institutions, for the control of the Reserve Bank of India being in Indian hands, and for a share of the financing of foreign trade being in Indian hands, was not dictated on grounds of pure banking. All these suggestions were rejected by the foreign " experts " on these grounds and yet got a varying measure of support in the Committee, because, there is something beyond pure banking, which every one will readily recognise. The Indian control of the Reserve Bank was accepted by even representatives of European interests as an assumption that was reasonable to put forward and which it would be most unreasonable to oppose. There is, therefore, something beyond the pure banking considerations, something which has a reference to the economic life of the country, and the calls, which the economic welfare of the country makes on individuals as well as on financial institutions working in the country. The immediate good is sacrificed and is set aside for the ultimate good. The direct interest of the individual is interfered with and set aside for the indirect good of that individual as a part of the community. Private interest is subordinated to public policy and the larger interests of the community. In forging a weapon, where individuals acting on their own cannot make a headway, the state forges a weapon of sufficient forte, and these collective activities often cause interference with the private and individual concerns, who have to put up with them. Individual rights, sacred and important as they are, come through and behind the rights of the nation operating through the state and through the law. Such is the foundation of national economic policy. Either India must have this, or perish.* Only foreign " experts "

*" Indian banking must pass through a series of changes before a suitable type is evolved. This type would evolve only when national commerce, national industry, and national agriculture with national fiscal policy are evolved. When is that to be? On the contrary, infanticide of banking is at present apparently looming in the legislative chambers."—(Lala Harkishen Lal in the Introduction to the " Organization of Indian Banking " by Thakur.)

could tender the advice on the basis of pure banking, but a Committee set up by Government under the direction of the Indian legislature could not do so. It is because I have conceived my duty in this light that I have shown the temerity of putting forward suggestions, which are largely based on financial grounds, but not entirely.

CHAPTER III.

POSITION OF THE CULTIVATOR AND THE NEED OF A POLICY.

15. The economic position of the agriculturist has been examined by the Royal Commission on Agriculture. Whether the average agriculturist is running it as a business to secure a return on his capital and on his labour, or whether he is there because there is nowhere else to go and it is his mode of living, and he has no option except to live as best as he can, is a moot point. There is much reason to induce belief in the second description. The agriculturist has all the risks of the operation on himself. His crop is not insured, his cattle is not insured, his domestic and other labour supply is subject to all the risks, to which individual family life is subject. If a large number of city population were not making remittances to agricultural districts, if a large amount of savings from operations other than agriculture was not being drawn in for purchases of land, for loans and advances, or for gifts to farming members of the family to enable them to tide over, perhaps the position of Indian agriculture would have appeared even worse than it appears now. I have no desire to exaggerate the picture, but it is essential to dwell on it from the point of view of the community. While every man's occupation is his own, the community has yet a direct interest in the results of that occupation. Those, who produce not only the food of the community in India, but a large exportable surplus, by which this country is enabled to meet obligations abroad, have the first claim on the attention of the community as a whole and of the state as the chief executive acting on behalf of that community.

I do not wish to deprecate what the state has attempted hitherto, or to detract from the merit of what good work the co-operative movement is doing in various parts of the country, what good and capable zemindars are doing in other parts of the country, and the beneficial effect, of the extension of irrigation. But the danger is that all good work gets discounted, where the progressive rate of deterioration is high. It is desirable that the balance of advantage should be in the direction of improvement and not otherwise. This is so important from the point of view of the nation that there should be no room for doubt about this. Hence the justification for the various apparently bold and direct measures, which I have suggested. I shall only complete this dark picture by sounding a note of warning, that progressive deterioration in the agricultural districts might bring about, particularly in a bad year, socio-economic consequences of a dangerous character. The most potent forces of disorder and anarchy in the world have emanated not merely from bread riots of urban unemployed, but from agrarian distress carried to the point of desperation.

16. *Surplus.*—The problem of rural credit can hardly be considered without the economic condition of the agricultural producer

being taken into account. The main question is, whether in his present condition he is pursuing agriculture on the basis, that, after paying the revenue and the expenses of cultivation including his livelihood on a meagre standard, there would be anything left. The answer to this question would differ in different parts of the country, and it would be different with regard to each individual farmer according to the nature and extent of his holdings, the nature of his crops and the nature of his land. It would further depend on the ruling prices for the commodity, which he produces, and the manner in which he is able to dispose of, or market his commodities.

Up till now the analysis is on the basis that he is not in debt.* On this basis, therefore, the surplus, which a man would have over a series of years on an average, would constitute on the one hand his profits. It would constitute, in the event of the actual farmer being a tenant-at-will, the rent. It would be the basis of land value according to the prevailing rate of interest on long term investments, though in India, opinion, both official and non-official, would tend to show that, either on account of land being considered an attractive method of investment, or, on account of there not being any other suitable mode of engaging funds, the capitalisation of the economic surplus from land takes place at a very low rate. Land has been known to yield to new purchasers as little as two and three per cent. and the economic motive in this case would be difficult to establish, unless it were for the belief of a continuous rise of land values over historical times, as well as the premium, which land enjoyed over other forms of valuables, when investment in the modern sense of the word was not known.

17. It is this surplus, on the strength of which the value of his land is based, that the farmer relies upon both for incurring his debt and for repaying it. It is that, which sets the limit to his borrowing power, and it is that, which also determines his ability to repay. The money-lender in India, from whom the agricultural producer receives accommodation, does not probably make actuarial calculations and he may not be averse to making the best of his opportunity *vis-a-vis* his debtor, who is usually in a weaker condition. The money-lender has to make his living and he has to take

* The figures of debt-free cultivators are given by some of the Provincial Committees as follows:—

Province.	*Percentage free from debt.*
Assam	Varying from 9 per cent. to 38 per cent. in different districts.
United Provinces . .	Varying from 33 per cent. to 61 per cent.
Central Provinces . .	Varying from 14 per cent. to 72 per cent. in the case of landlords and from 13 per cent. to 70 per cent. in the case of cultivators.
Bihar and Orissa . .	Varying from 19 per cent. to 21 per cent.

My colleague, Mr. Mukhtar Singh, who comes from the United Provinces and whose knowledge of rural conditions is considerable and first hand, seriously questioned the reliability of the U. P. figures. The internal evidence from the figures of Bihar, where conditions could not be widely divergent compared with U. P., would also lead to the same conclusion.

the solvent with the insolvent debtor. The period of repayments is not usually specified. Often new loans are incurred, while the old ones are not paid off. The most important factor, however, is the rate of interest.

If it were possible for any district or smaller area to actually ascertain the economic surplus, which the farmer has, or could be expected to have over a series of years in relation to the amount of interest, which he has to pay, the proper economic factor could be seen, *viz.*, whether most of the surplus is not absorbed by interest charges.

18. It is difficult to say whether this is so generally, but there is no doubt again from such impressions as the Provincial Committees have been able to form, that a certain section of the agriculturists is in this condition. The economic consequences of this condition may be examined. They would be as follows. The loan is not getting smaller. If there are any failures of crop, or other misfortunes, or even unavoidable domestic obligations, the loan might then tend to be bigger. The increase of debt may be then rendered possible by increase of land values, or by adventitious circumstances like proximity to a railway line, or improvement in transport, which may bring in more money to the cultivator, other factors remaining the same. In either case, the chances of the debt being repaid are often small. The option remains to the creditor to keep the thing going, or to foreclose. He may choose to keep the thing going, as he may have already recouped himself to the full extent of his outlay calculated on a reasonable interest. He is bound to regard whatever comes to him every year as a new permanent source of income created by him, and the lender may be also loth to incur the unpopularity unavoidably involved in foreclosure and ejections. Foreclosure itself would mean the need for finding a new tenant, or for finding a purchaser. From the point of view of the lender, this will be the position, but, from the point of view of the borrower, the motive for economic production will be gone. The desire to improve the land by putting in not only all the labour, but also a little more capital, however infinitesimal, it may be, will not be there. If more is produced, more will be taken by the creditor.

19. Whether it is a large portion of the cultivator's debt, which has reached this position, or whether it is a small portion, there is at present no means of saying, but even if it affects a small portion, its existence is most undesirable from the point of view of the community. The community is interested in larger production, which constitutes the food for the community, which offers freight to the railways, and which becomes the subject matter of trade. The community's interest is also in improved land, which can bear, when administrative needs arise, the burden of taxation. Nothing is more destructive of economic welfare than the pessimism and the hopelessness of a situation, when a man does not feel that any part of the reward for his labour will come to him, but that the whole of it will be swallowed up by somebody else.

I have argued later for the need of the reduction of the interest charges payable by the agricultural community. It may appear I have done so needlessly, but the object was not only to point out the desirability or the urgency, but also to demonstrate that the community is vitally interested in this. It is not merely for the good of the man, who will get cheaper credit, but for the good of the community as a whole that it becomes imperative to do something. No stronger ground for state action could be found than in the situation portrayed here. There will be those, who will from their direct local knowledge, point out that in their districts the position has not reached this limit in many cases. The only reply to this would be that, if the position has not been reached, there is the danger that it may be reached before long. Prevention is better than cure. Whether it may be, therefore, regarded as a belated remedy, or as wise precaution against a menace, the need for energetic action is indicated.

The danger of delays.

20. In the consideration of remedies for an economic evil, in India, the details are undoubtedly important, but the supreme need is of clearing the atmosphere. An inertia of ages hangs on questions of the economic improvement of the cultivator, which are beset with many difficulties. People have become adepts in this country in the art of evading or postponement of the essential reform. It is either considered too late or premature, or it is stated that it does not take account of varying conditions in different provinces, or there are administrative difficulties, or it goes counter to the provisions of certain laws. Inconvenience to the upper classes raises its head in connection with these discussions in many forms. Sometimes the question of cost is raised, and on the ground of additional cost the matter is turned down. The question of cost is important, but could generally be ascertained with reference to the benefits secured. Where it is raised without any reference to such a benefit, it is liable to suspicion. Many economic changes in society occur for the worse without effort on the part of anybody, but it is rarely that economic improvement comes about without conscious effort. Is there a will to secure the necessary reforms with a view to preventing further rot in the economic condition all round? Is this will confined merely to social reformers and to a few publicists, or is it generally to be found amongst all those, who think on these subjects? Is it further only seen in the legislatures, or is it to be found in governmental machinery at the top? The failure of several measures by Government initiated at the top may be found in the apathy and lethargy of the agency of Government at the bottom. There are thus many causes, which can lead to the continuance of the present drift and to the frustration of any reform. The main thing, therefore, is to secure a better atmosphere, to secure a better knowledge on these subjects and to devise programmes, which are complete in themselves, instead of isolated measures, and, above all, to put the obligation for watching the

progress of these measures definitely on the shoulders of responsible parties.

NEED OF AN AGRICULTURAL POLICY.

21. The Committee in their discussions came to the conclusion that measures for improving the credit of the cultivator would have to be accompanied by other measures. Their conclusion is embodied in the following terms:—

"Credit alone cannot help the agriculturist. The other factors to be considered are:—

1. Removing the existing impediments to efficient production.
2. Lowering the burdens of taxation.
3. The fiscal organisation of the country and in particular the assistance to agriculture by tariffs and subsidies.
4. The economic organisation of the industry and in particular the development among farmers of methods of purchase and sale and co-operative insurance.
5. Instituting of schemes for the improvement of land, live-stock and crops, elimination and control of pests of plants and animals, provision of power and other assistance to industry subsidiary to agriculture and developing afforestation.
6. Organising the transport system of the country with due regard to the interests of agriculture.
7. Establishing a system of sound general education and special provision for agricultural education and research and for embodying the results of such research within the practice of the agriculturist.
8. The developing of state or voluntary organisation to provide the necessary central and local machinery for carrying out measures of agricultural policy and for influencing that policy.

The active pursuit of a progressive agricultural policy is necessary for the purpose of fostering profitable agriculture under modern conditions."

It is not possible to elaborate various measures, which would help the agriculturist, under each of these heads, without straying outside the field, to which the discussions of the Banking Committee should be confined, or without running into volumes. A progressive agricultural policy in a country can, however, only be a part of a larger economic policy. Policy means the absence of drift. Such a policy has also to be national in the sense, that the economic needs of the population in India should rank as the first, second and third object of that policy. To the spirit of a proper economic policy, the adoption of isolated measures here and there tinkering with the system is repugnant. Reforms on paper proclaiming good intentions towards the agriculturists do more harm than good by diverting attention and by weakening the spirit of

vigiliance. If agriculture is to be a profitable industry, all elements of costs would have to be examined, all avenues of leakage would have to be closed up and wastage eliminated. The maintenance of law and order, which is at the foundation of social life, is of course important. Next to it, perhaps, is a system of education and literacy, by which the ideas, which the cultivator is expected to absorb for his benefit and to improve his work, could reach him. The system of tenure involving the relation of the cultivator to the State on the one hand, and to intermediaries, who exist between him and the State, on the other hand, would also have to be examined. The economic aspect of such relationship where it becomes relevant to this enquiry is examined later on.

22. With regard to No. 2, in the above list, *viz.*, lowering the burdens of taxation to be borne by the cultivator, the question of land revenue would undoubtedly have the place of honour, but there are other impositions. In this connection I would like to make a reference to the fact that some of the money, which the cultivator pays, does not go into the pockets of the State, but goes to swell the profits of private parties, who fix the price without reference to the cost of production. This happens in the case of kerosene, an article now universally used by the rural population. Nature has given kerosene to India in bulk, but the hand of man has interposed barriers. Anti-trust laws operate in other countries, but in India a close examination of monopolies, price fixation, cartels, pools and other devices, by which the consumer is hit, is rare. The Indian Electricity Act permits of maximum charges being fixed in the case of licensees for the lights of the urban population, but the charges for the lighting of the poor at present are unregulated. As I said before, these are topics arising only incidentally in our enquiry, but there was a general agreement in the Committee that there are matters, which need looking into.

23. With regard to item No. 3, fiscal arrangements by tariffs and subsidies, the agriculturist has hitherto come into these discussions negatively, *i.e.*, at the time when fiscal arrangements were urged in the interests of industry, he has been mentioned as a consumer, whose interests need be protected. It is not recognised that it is the cultivator, who is the principal producer in India, and as the principal producer, he has more paramount claims on the attention of the State in his capacity as producer. In Brazil there was the coffee valorization scheme when there was an excessive coffee crop and the price of coffee went down. The United States Farm Board has many functions and many powers and it has been known to use them in the case of staple commodities like cotton. At any time of crisis, the agriculturist should receive attention. The principle has already been recognised in India in the recent wheat bill, but it has again come as an isolated measure. The plight of the crores of cotton growers and growers of oil seeds was equally bad, but has gone unrelieved, because in the armoury of the State there was not a weapon ready. Assistance to agriculture by means

of tariffs, bounties and subsidies has never been definitely accepted before.* I should have much liked to dilate on the principles, on which this can be done and should be done, but as that would take me out of the main discussion, on which attention should be focussed in our report, I would recommend that a close examination of this should be secured as early as possible. I would recommend that Government should immediately secure detailed information as to what has been done in other countries on this subject and institute a close enquiry into this to enunciate general principles capable of application without delay, when a situation justifying their application has arisen.

24. With regard to item No. 4, the problem of supreme importance in Indian agriculture is that of the size of the holding. The willingness and the capacity of India to solve this problem will be the test of true greatness both for the Government and the people of this country. I say this, because two opinions do not exist with regard to the prevalence of this evil. It is recognised and acknowledged by all that holdings get smaller and are scattered. It emanates from the examination given to this subject by the Provincial Committees, that the evil is on the increase, that the resulting sizes of the holdings are not economic, that it is difficult to help cultivators, who have small strips spread over many places,—strips, which collectively do not constitute an economic unit, *i.e.*, a unit, to which they could have applied their own labour and the use of their cattle and implements so as to secure the best possible return. A vast amount of land is lost in intermediate 'bunds'. When strips are scattered, time is lost in movement. The same improvement could not be extended to the various strips. Nor can they be effectively protected against depredations of man and beast. The problem is thus twofold: to secure a compact holding for the cultivator on the one hand and not only to prevent further splitting up, but to secure a consolidation, if necessary, in order to maintain a minimum economic size. Measures towards this end cannot be suggested by the Banking Committee. It is in this connection that I should like to repeat the wise words of the Royal Commission, who said that legal difficulties should not be allowed to override economic considerations. What is most required towards a solution of this problem is strength and not futility. It is, therefore, surprising that in India, where the Government have the reputation of being a strong Government, this evil has persisted and has increased. The Indian cultivator is too ignorant to know that such reforms have been carried out in other countries, that they are intended for his good, and that he should acquiesce by co-operating without any fear of being treated unfairly. With the problem of credit improvement, the question of *holding* is directly tied up. Nothing spoils the record of rights so much as little holdings. The security value of these little strips of land is much less than when the land is compact. Every other im-

* Lord Curzon did rattle the sword against bounty-fed sugar from the continent but no policy was evolved.

provement in the method of cultivation would be discounted, if further fragmentation were allowed to go on. Economically, the problem of consolidation would be, so far as the State is concerned, to make the necessary advance to the cultivator for the excess value of what is added to his holding. The other problem would be to make provision for a certain number, who would be dispossessed and who will be thrown out. The State in India has some waste lands in certain provinces, and if there was a will, the second problem could certainly be solved by colonisation schemes, transplanting the dispossessed cultivators to the new areas and giving them the necessary initial assistance to be on their legs. I cannot reconcile the increase of fragmentation with the existence of ministries of agriculture both in the provinces and at the centre, until the difficulties are authoritatively sifted and declared.*

25. With regard to item No. 5, the matters have been dealt with at length by the Royal Commission on Agriculture, and they do not require any specific examination in this regard. The point relating to industries subsidiary to agriculture deserves some remarks. The cultivator has much time during certain periods in the year, when he and his family have comparatively little to do. He cannot use his time profitably. Where there is more than one crop and in the irrigated area, this time is by no means considerable, but it is a grave economic loss in other areas.† If there was a demand for his labour, he could turn his labour into money, but he could not initiate things on his own, which would be useful either to himself or to others. He cannot start on any activity, which he can turn into money. The desideratum is that the item, which he could handle, should be such as does not require any special skill. In the districts of India growing cotton, the obvious way out is spinning. It has made progress in various parts of the country, and labour, which is a perishable commodity if it is not immediately used, has been put to good account by these means. For this purpose also public opinion is necessary, and the supply of clean cotton as well as the utilisation of the yarn produced becomes essential. This is an important way out, in view of the fact that next to his food, clothing is a necessity to the cultivator, and if there was an organization, which would supply cotton and which would exchange yarn for cloth on a definite basis not unfair to the cultivator, it would be a godsend for him. In this, as in all other measures taken, the fullest co-operation of the official class down to the village official is wanted. So long as that co-operation is lacking, conditions cannot improve. Several Provincial Committees have suggested schemes of rural reconstruction. Several of them have detailed the organisation of such schemes.

* It is to the credit of the Minister of Agriculture in Bombay that a bill for the consolidation of holdings was introduced. It was, however, very surprising that in Bombay, which is the one province, in which the Government have, ever since the introduction of the reforms, consistently enjoyed a majority in the legislative council on all issues, on which they wanted it, this measure was thrown out!

† It is suggested that he is occupied for 200 days only in the year.

This successful introduction would depend on the sacrifice and willing guidance given by many officials and non-officials at the top.

26. In the transport system of the country, the railways naturally take the lead. With regard to the railways, the outstanding fact from the point of view of the cultivator is the level of freight charges. Freight charges are monopoly charges and in the case of the railways, it has not yet been made clear that they are public utilities, from which the State wants to make no profit, and that the charges have been fixed on the basis of the cost of service. That this cost of service could be reduced is the feeling in many quarters. Freight charges, which were raised in India after the war, have not been universally brought down, though they have been reduced in the case of certain articles and with regard to certain industries. The percentage of these charges to the price of the agricultural products during the boom has heavily increased with the fall in their prices, and they fall directly and completely on the agriculturist, because, the price, at which he has to sell his produce, is generally the wholesale price at the principal market less the charges, of which the most important is the freight. If the agriculturist goes off from food to commercial crops, he has to bear more freight over the commercial crops and also some freight over the food crops, which he imports for his own consumption. The railways thus stand to gain, but the cultivator is not helped in the extension of commercial crops by any rebates on this account. Many other anomalies would be seen, if railway rates were closely examined from the point of view of the cultivator. They have not received such an examination and the recent request of the Indian Central Cotton Committee and the Federation of the Indian Chambers of Commerce that freights should be reduced, was turned down on the plea that it could not be done. Differential rates imposing a heavy burden on imported food and raw material moving to the interior, and a cheaper freight on food and raw material going out to ports, I have found, have formed the feature in railway policy in other countries in the world, but to my knowledge they have never been discussed in this country. The suggestion that railways exist for the benefit of agriculture and industry of this country is one, which would be pooh-poohed in high quarters. There are many essential adjustments, which are wanted, and so long as they are not secured, improvement in agriculture, and therefore, in the credit of the cultivator, would continue to offer difficulties.

Landlord or tenant.

27. Where an agricultural policy is enunciated, through whom is the salvation of agriculture to come? Is it expected that the landlord will improve the lands, will increase production, and bring prosperity and should, therefore, be assisted in every possible way, or is it that the improvement of the land is to be secured through the improvement of the economic position of the tenant or actual cultivator? There seems to be some doubt on this subject

and a material difference of outlook, as will be seen from the following quotation from the Royal Commission on Agriculture:—

"The complaint that the larger landlords do little for the development of their estates on modern scientific lines is a very general one and the honourable exceptions to be found in every province are too few in number to do more than throw into relief the apathy of the majority. In their defence, it may be pleaded with some truth that, in some provinces, the system of tenure or the tenancy law restrains them from obtaining unrestricted possession of a compact area and, in others, prevents them from securing a full and fair return from the proceeds of their enterprise. Questions of tenure have been expressly excluded from our terms of reference but we would suggest that, where existing systems of tenure or tenancy laws operate in such a way as to deter landlords who are willing to do so from investing capital in the improvement of their land, the subject should receive careful consideration with a view to the enactment of such amendments as may be calculated to remove the difficulties. * * * They should be actively encouraged to stimulate the interest of those who hold land under them in the value of improved seed, implements and stock. The reply that the increasing prosperity of the tenants which may result therefrom would not be reflected in any increase in the income of the landlord is difficult to counter but, where the existing tenancy law imposes obstacles to progress, which were not contemplated by its framers, the case for review gathers force."*

India has a clear choice and will have to make that choice. Are legal changes for the improvement of the credit structure to be made in favour of the landlord or the tenant? While there may be something to urge against any sudden or wholesale displacement of the intermediate holders, the bias of witnesses and the basis of the examination by the Central Banking Committee on these questions, have been on the whole in the direction of strengthening the position of the actual tiller of the soil. The Committee came to the conclusion that it was desirable to remove all restrictions which interfered with the power of the tenant to transfer his land.

Improvement of rural credit.

28. The Bombay Committee have enunciated a very important principle in connection with their recommendation dealing with inalienable Inam lands.† The principle is that, if Government, by law or otherwise, put a restriction on the transferability of land, which makes it impossible for such lands to become the basis of credit, Government should simultaneously undertake the obligation to provide the finance, the securing of which they have rendered extremely difficult, if not impossible. They also formulated a very far-reaching principle in the following terms:—

"When land is held by an inferior holder on terms which prevent him from raising money on its credit, either the superior holder

* Paragraph 358 of Report of Royal Commission on Agriculture.
† Recommendation No. 165, paragraph 250.

should finance the inferior holder or should stand as surety for loans which the latter may obtain from co-operative societies."*

Is it possible to compel a landlord to finance the improvement of land in the hands of his tenant? Is it possible to induce such landlord to stand as surety for loans by the tenant? While there may be exceptions everywhere, I have very grave doubts about the feasibility of either of these proposals. I, therefore, believe that the path of agricultural improvement lies in strengthening the position of the actual tiller of the soil and in giving him the motive for more exertion and for improvement, in making his rights in the land so secure, that he would have both the desire and the ability, which, owing to his present economic position, he seems to lack.

No loophole, which might be used in many places to evade the demand for such legislation, or to delay its accomplishment should be left. There are vested interests concerned with the position, which the actual cultivator now occupies. These interests would profit from the continuance of the present position directly and indirectly. In the Central Provinces it has been pointed out that restrictions on transfer enable the landlord to get hold of the lands of his tenants very cheap. In Bengal, there is the pre-emption and salami, which have the same effect as in Central Provinces, and worse. Since the cultivator will still borrow, complicated and restricted laws of this kind tend to raise the rates charged for borrowing and also add to the volume of litigation.

29. Apart from the question of restrictions on transfer, there is the question of title in land. The question of transfer arises only when there is something valuable enough to transfer to somebody else, who will be willing to pay for it, or lend on it. There is in every province a large number of those who actually till the soil, whose rights in respect of the land, on which they are working, have no value for sale, and therefore none for raising credit upon. These cultivators need finance just the same as any other cultivator, but they cannot get it. They can get it only on the crops and crops being the only security, which they are free to give, a loan transaction would be mostly accompanied by binding arrangements with regard to the manner and method of sale and would, in some cases, lead to lower price being received than if the cultivator had economic independence. When the cultivator has so meagre a title in the land, the rent and other charges, which he has to pay, will usually be worked up to the utmost limit and the prospect of a surplus to him will be small. The prospect, therefore, of the land being either cultivated intensively, or being improved economically, will be small, and the cultivation will have to be confined to that portion of the land, for working over which the cultivator can scrape enough money. This is a position, which is most undesirable from the point of view of the community as well as from the point of view of the actual tiller of the soil. It is a position,

* Recommendation No. 165, paragraph 250.

however, which cannot be cured without some disturbance of acquired hereditary rights of superior holders. There is probably no problem connected with agricultural credit, more difficult to handle than this. Ownership of land and zemindary rights have become subjects of purchase and sale. They have been capitalised at the return expected and actually received. The present holders are not in all cases, or in many cases, hereditary successors of the original holders. They are the economic successors. They are *bonâ fide* holders, who have invested their savings in the form, which has been commended and considered attractive. They might reasonably claim that they have a right to the protection of the state against any suggestion, which would deprive them of their present position under the present law.

30. In the matter of deprivation by third parties by unfair means, the claim of landholders would be absolute and unanswerable. But the situation alters, when the question of adjustment is taken up by the State in public interests. The existence of a healthy and prosperous cultivator class is of importance to the community and the intervention of the state becomes essential, though ostensibly what is put forward is the welfare of the tenants. The cultivators after all are a class, who are active and who are seeking from the state protection to the fruits of their own effort less their contribution to the State in the form of taxes. The landholding class, on the other hand, are seeking the frozen fruits of previous efforts. In their case, it represents savings, but it also presupposes that in their case savings were possible. The curtailment of the enjoyment to savings comes about both from the direct action of the State and from other causes. Interference with the direct return to one's labour is much more reprehensible, and altogether, the grounds, on which the actual cultivator can claim more tangible right in the land, which he is tilling, are very much stronger and deserve greater weight and consideration in the policy of Government.

31. I realise that the fundamental principle of property is here involved, but the origin of all properties is not crystal pure. While this is well-known historically and while it is realised that properties are in their origin mostly based on suitable opportunities, which were utilised by original parties, in social arrangements it is not the injustice involved to property owners, which prevents changes, but the indirect reactions to the social order. Violent disturbance of acquired rights, however unfair they may have been in their origin, is not desirable and in practice would lead to no end of trouble. The repercussions will be felt very far and sometimes in unexpected quarters. I am not, therefore, making a proposal for immediate and wholesale expropriation of all rights of classes intermediate between the actual cultivator on the one hand and Government on the other. But, where futile survivals have accumulated, where the rot has proceeded very far, and where the forms have swamped the substance, it is helpful to go to fundamentals for the restoration of an economic equilibrium.

Clean sweeps are undoubtedly dangerous, but if economic needs are not taken into account and if adjustments are not made in time, the demand for clean sweep would come in an overwhelming manner. Societies, that were not warned of this danger, have suffered in the past. The argument of having acquired the right may be used for moderating reform but should not be used for negativing it.

32. The practical measure that I, therefore, recommend is that the Minister for Agriculture in each province should forthwith get particulars of the nature and class of tenures in lands and should institute reforms beginning with those cultivators, who have the most limited rights. The tenancy at will is the inevitable accompaniment of absentee landlordism and is the curse of the community. It supports one set of people, who are active, absolutely at the margin and therefore in misery, and it supports another set in comparative idleness. There may be many actual and local variations between these two extremes. There may be many exceptions to this rule. Stated in this form, it undoubtedly appears as a prelude for a wholesale socialistic policy, but it need not be that. It is with the object of a timely and reasonable modification of a feudal organization of society. It is not suggested that the actual cultivator should be forthwith declared to be absolute owner subject to the taxes. That would be an act of wholesale expropriation and would come under the class of violent disturbance of a social order, of which I am not in favour. But I would go in this direction as far as it is possible with safety. I would oppose every suggestion that it is not possible to go in this direction. The spirit of the various tenancy laws, which Government have themselves passed, would point out that it was considered desirable to adopt various measures. My complaint is that these measures have not gone far enough and also that such measures have not been effective. The existence of a considerable number of cultivators in the position of tenants at will points to the existence of an evil on a serious scale. The question of land tenure does not arise directly in our reference and cannot become a subject matter of any recommendations by us. I shall, therefore, content myself with the remark that, amongst the active members of the society, the actual cultivator of the soil in India holds an important place and in many cases he has no rights in the land, which he cultivates, which give him a sense of property, which form the subject matter of sale and purchase, or on which he can borrow. The problem of financing such cultivator, except with the hand to mouth seed advance in kind and small seasonal loans, which he manages to get on the strength of crop hypothecations, is impossible. For improvement in land, such cultivator would have no motive and the owner may have either no knowledge and no resources, or no desire to invest those resources in permanent improvements.

33. The financing of agriculture can only be improved, when the agriculturist has been placed on a stable basis. From the credit point of view, his basis at present is in several cases very unstable. Until the improvement of the cultivator, regardless of acquired

rights of parties above him, becomes the first object of state policy, the improvement of banking with a view to secure larger finance for agriculture will remain a distant and elusive goal.

The law in practice has set up in many places the principle of finality for many purposes. This is a principle in the case of the law of limitation, and this is the basis behind insolvency laws. Intermediate classes derive their title either as rent collectors or as actual cultivators. If they have ceased to exercise their rights as actual cultivators, by parallel reasoning involved in the law of limitation, their rights should cease sometime or the other. In their position as revenue farmers, the extent of the right should be limited to a fraction of what Government will get, or, in the alternative, to a reasonable cost of collection over the revenue factor applicable to any particular locality. Their rights as investors by purchase stand on a different footing, but the purchaser and owner of every asset takes with him also the risk of gain and loss. Where such gains have occurred through no exertion of the owner and through the change in the economic conditions of the community as a whole, the propertied classes have pocketed the gain. Where the reverse occurs, not through malicious designs or expropriation by anybody, or even by the state, but as a result of well-planned programmes for improving the economic conditions of the community as a whole, it would not be correct for them to squeal. If the intermediate owners were putting in a large amount, or even considerable amounts out of the rents received by them in the improvement of the land, there would be a great argument in their favour and for minimising the disturbance to their rights. This may be the case in some districts in India, but we have found it recorded in the reports of several Provincial Committees that landlords are gradually acquiring more land. The surplus of such landlords is being devoted, therefore, to their expansion horizontally, instead of to the improvement of the land. A state of affairs, therefore, does exist, which wants a radical remedy. It is better to devise this remedy by forethought and deliberation and to introduce it in the gentlest possible manner than to leave the evil until things break out on their own at an unexpected time and in an anti-social and disorderly manner.*

34. Restrictions on transfer appear to be based on the principle that the owner must choose a tenant, with whom he can get on, and should not have an undesirable party foisted on him. The right of an uncultivating owner in this direction does not appear to be based on too solid a foundation. It is not the right of a factory owner to select his labour. The landlord in such cases has the preferential right to rent. He leaves the risks of the operation on the cultivator. He shares not in the risks, therefore, of the cultivator, nor his vicissitudes. His concern is with the amount of rent and not with anything else and so long as he receives this, he does not trouble

* Madras Estates Land Act dealing with permanently settled lands (Act 1 of 1908) embodies the policy of removing restrictions on the transfer of land by the tenant.

himself with the life and travails of the cultivator. He has no right to interfere with the economic standing and the position of the cultivator, the parties with whom he has to deal, and particularly with the borrowing power, which he should have and which he should exercise unfettered.

In business parlance, such a party is in the position of a sleeping partner, who is not a sharer in the loss. He is not even a sharer in profit, but holds the first charge on the gross incomings regardless of whether the business is profitable or not. In commercial business such a party would not have any rights, and trade and industry could not be carried on, if a very large number of them were encumbered by prior interests of this kind. If a counter suggestion were made that no landlord should transfer his interest by sale or otherwise except to a party approved of by the tenants, many sound arguments could be adduced in its favour.

35. The reasoning followed in this chapter is that the economic position of the agriculturist has got to be strengthened by various measures, which would give him a surplus, that he can call his own. It is on the strength of such surplus that the cultivator would secure, by measures foreshadowed elsewhere in this report, the necessary credit to finance him both for long period and for current purposes. A definite agricultural policy and a general economic policy calculated to improve the position of the cultivator, would not be effective, unless his position against the landlord is made secure and is strengthened, wherever it is weak at present. The welfare of the community lies in securing the welfare of the actual cultivator. All obstacles in his path are also obstacles in the path of effective measures to ensure suitable credit at cheap rates to be made available to him.

CHAPTER IV.

VOLUME OF INDEBTEDNESS AND OTHER BURDENS BORNE BY THE CULTIVATING CLASSES.

INDEBTEDNESS.

36. The existence of indebtedness in rural districts and by the cultivating classes is a commonplace in all discussions about them. When the Provincial Committees were appointed, it was expected that they would be able to make reliable estimates of such indebtedness. Some attempt at making these estimates has been made and the results are as follows:—

Province.	Total Rural Indebtedness.	Remarks.
	Rs.	
Bihar and Orissa . .	155 crores . .	Made up of 24 crores debt of landlords. 129 crores of debt of ordinary tenants, and 2 crores others. (B. & O., para. 90.)
Madras	150 „ . .	This includes both the rural and urban debt. It has been stated that it would take an unreasonable amount of labour to distribute the debt between the rural and the urban areas. (Madras, para. 98.) Mr. Thomas thinks that the information gathered is quite insufficient for estimating the total indebtedness.
Bombay . . .	81 „ . .	The figure has no pretension to absolute accuracy. (Bombay, para. 49.)
Bengal	100 „ . .	About 62 crores represent long-term debt. (Ben., para. 129.)
Burma	50 to 60 „ . .	The estimate does not pretend to be accurate. (Bur., para. 102.)
The Punjab . . .	135 „ . .	....
Central Provinces . .	36 „ . .	Made up of landlords' debt 6 crores and cultivators' 30 crores. (C. P., para. 628.)
United Provinces . .	124 „ . .	Includes also the debt of agricultural labourers of all kinds. (U. P., para. 201.)
Assam . . .	22 „ . .	For Plains districts. (Assam, para. 33.)
Central Areas . .	18 „ . .	Includes about Rs. 3 crores each for Delhi and Ajmer-Merwara.
Coorg . . .	35 to 55 lakhs. .	(Madras, Volume VI, paras. 36—37.)
Total .	876·45 crores .	

* References in this column are to the Reports of the Provincial Banking Enquiry Committees.

The methods employed for estimating rural debts were as follows:—

(1) By ascertaining the actual indebtedness of a sufficient number of individuals sufficiently widely dispersed over a province and deducing the total debt therefrom.

(2) By ascertaining the volume of secured debt, *i.e.*, mortgage and pronote debts, from the statement of debts registered in the Registration Department and deducing the total volume of unregistered debt by a formula of the proportion of secured and unsecured debt to the total debt of the population obtained from some special investigations in a number of villages. This method is used as a check on the figure obtained by other methods. Other checks commonly used are the proportion between debt and land revenue, debt and value of crops, etc.

(3) By ascertaining the indebtedness of members of rural co-operative societies and assuming that the "Co-operative population represent the Indian agricultural population".

37. The Committees themselves have expressed doubts as to the reliability of the results secured, on the following grounds:—

(1) Many agriculturists have no clear recollection of their liabilities and many are averse to disclosing facts.—(Bom., para. 45.)

(2) Amounts mentioned in registered documents are not always found correct and many mortgages are disguised as sale deeds.—(Bom., para. 45.)

(3) There is no source of information regarding repayment; the books of money-lenders are neither available nor reliable.—(Bom., para. 45.)

(4) In view of the large number of non-agriculturist intermediaries, it is difficult to determine what proportion of registered debt is borrowed by agriculturists and what proportion by non-agriculturists.—(Ben., para. 84.)

(5) The time of the year when the statistics are collected affects the estimate.—(Madras, para. 92.)

(6) The Madras Committee say that it is not possible to make an estimate of grain debts.—(Madras, para. 103.)

(7) It is difficult to ensure that the agency employed for collecting the statistics is everywhere competent and able to secure the confidence of the individuals questioned, or that the individuals are a fair sample of the population under survey.—(B. & O., para. 81.)

I could point out many other grounds, which vitiate the results secured from these figures. Nothing is more misleading than statistics, which being arithmetically expressed create an idea of

accuracy and conceal the defect, however glaring it is, of classification of different meaning attached to the terms used, and the errors in collection. One has further to allow for motives for exaggeration or understatement either of the parties giving the figures, or of the officials collecting the figures. Apart from the general precaution in the use of statistics, there is, in the case of these debt figures, the difficulty that they represent all contracts and at the figure on paper, relating to all parties. Since there are superior rights in land between the actual cultivator and Government, the mortgage transactions of all the parties concerned, would appear here. They would further appear at the figure in the original mortgage without any reference to accumulated interest on the one side, or to the repayments made on the other. There is no means from their figures of ascertaining the security, which is behind the total debt, or whether the security is adequate, or whether some of the borrowers are not already insolvents. The debt figures further do not represent in all cases the amount, which the lender expects to recover, or will recover, or can recover, nor again the amount, at which the creditor may be willing to settle.

38. A quantitative estimate of the debts of the cultivating classes is of great importance as an indication of the amount of money, which the lenders have engaged in this class of work. Such an estimate would further indicate where the average rate, at which this debt stands, is either known or assumed, the burden of interest charges, which is borne by the agriculturists. A reliable statement of the indebtedness of the cultivator would give indication as to the extent of banking expansion in the country, which would be necessary, to supply the needs to the extent to which they are supplied at present and also the creation of additional credit for supplying the needs, which remain unsatisfied at present.

In the matter of indebtedness, if it can be ascertained, it will be most useful to know whether the total amount of debt is going up or going down. The Royal Commission on Agriculture say on this subject: "It is more than probable that the total rural debt has increased in the present century; whether the proportion it bears to the growing assets of the people has remained at the same level, or whether it is a heavier or lighter burden on the more prosperous cultivator than of old, are questions, to which the evidence we have received does not provide the answer."*

39. On this subject it is a pity that the Central Banking Enquiry Committee have also to leave the matter at the same stage, *viz.*, there is no means of knowing whether the total indebtedness is increasing or is diminishing. If there is a considerable doubt with regard to the absolute figure of debt as at the present moment, any estimate as to what the debt was some years ago would be open to a still more doubt. I would, however, like to point out a very important factor in connection with the phenomenon of

* Report of Royal Commission on Agriculture, page 441, paragraph 368.

indebtedness. Even if the total amount of debt had not increased, and if it remained the same, I would infer that it has increased, because the Provincial Committees' Reports indicate in many places that transfers of land are going on and that certain classes are getting more and more land. Mortgage decrees and the sale of land under mortgage would be a prelude to such transfer and there is considerable evidence with regard to that. The heavy indebtedness of the agriculturist, when it exceeds the realisable value of his land, leads in most cases, but not in all to foreclosure and the new owner starts on a clean slate. If new debts were not, therefore, contracted, the total amount of debt must *ipso facto* go down. While it is difficult to show whether the debt is increasing in the absolute, the opinion of all shrewd observers appears to be that the total overload of debt has not diminished. The views of the Royal Commission on Agriculture on this subject are worth examining. "The predisposing causes which lead to debt are now well understood; the maintenance of law and order, the defining and recording of rights in land, the continuous reduction in the proportion borne by the land revenue demand to the produce, the rise in the value of that produce and the growth of transferable rights in land have all contributed to enhance the credit of the landholder. The rapid development of commerce and trade, the introduction of established law and permanent civil courts and the enactment of such measures as the Contract Act have strengthened the position of the moneylender. His capital has been swelled by the accumulating profits of his business, which has been extended by his own thrift and intelligence. The general expansion of credit has provided scope for the investment of his savings and has averted that competition from his fellows, which might otherwise have forced down the rate of interest."*

These were the views of shrewd observers, but in my opinion they are bristling with controversy. No useful purpose would be served by entering into that controversy here. Much historical material would have to be introduced in ascertaining whether things have on the whole moved in the direction of increasing the borrowing power of the man, who cultivates. It will be noticed that I am using the words "the man who cultivates", instead of the word "landholder", which, with commendable caution, the Royal Commission have used. The word "credit" is obviously used in the above quotation not as capacity to borrow, but as actual borrowing. The Royal Commission has referred to the rise in the value of produce and to the smaller portion, which land revenue charges bear to the gross produce. The agriculturist is, however, concerned with the surplus, which is left to him. In regard to his own livelihood, it would be a surplus after paying not only all costs of cultivation, etc., but interest and other dues. For the purposes of his credit, however, it would be the value of the land based on such surplus and on the capitalisation at rates at which

* Report of the Royal Commission on Agriculture, para. 432.

assets are capitalised. Another very important factor to consider is the amount of wastage in the capital of the money-lending classes. Moneylending as a profession is constantly receiving new recruits and sending off old ones either by migration to urban towns or by trading, or by permanent loss. The paper rates of interest and the real interest realised have also to be considered. If the fertility of the land in India is giving out, if the pressure upon land is increasing*, if the number of mouths to feed is greater, if the surplus, which the agriculturist can get hold of after selling his produce, has become smaller in amount, or has reduced purchasing power,—if, in short, there is a general deterioration in the condition of the agricultural classes as a whole, those who are bankers to the agricultural classes, not in the western, but in the eastern sense, cannot but be affected by this. In the eastern sense loans are not always fully secured and, while pressure is employed, public opinion reduces the rigours of that pressure. Patience and helpfulness have been noted by the Provincial Committees, as well as by the Royal Commission on Agriculture, in the lender in India, whose desire is to continue an old debt and get what he can, when he can, rather than have a clean out and start a new account.

The resources of moneylending in India, which are bound up with the resources of the community, could not therefore increase, if the community is going down. Statistics of income-tax, on which some reliance appears to have been put by the Royal Commission, would be misleading as it may indicate an improvement in the income-tax administration and not necessarily in the income taxed. The whole subject is thus shrouded in the same mystery, in which it was when the Banking Committee was appointed. This is a pity. I have barely enumerated the various factors affecting the problem, which has to be left where it is for proper and detailed elucidation by somebody hereafter.

Burdens of the Agriculturist.

40. The search for the total volume of indebtedness of the agriculturist and its two components, *viz.*, the debt for seasonal finance and the debt for a longer period, is to be made for the purpose of devising a suitable machinery for the supply of credit and for debt redemption, but, when secured, such statistics would serve another purpose. They would disclose facts, to which the attention of Provincial Committees generally does not seem to have been drawn. As these facts raise economic issues of the utmost importance, and as these issues are vitally connected not merely with the general economic welfare of the cultivating classes, but with the immediate problem, which our Committee has to look into, of the possibility and methods of securing credit for them, I think reference to them is necessary.

* "The crowding of the people on the land, the lack of alternative means of securing a living, the difficulty of finding any avenue of escape and the early age at which a man is burdened with dependents, combine to force the cultivator to grow food wherever he can and on whatever terms he can."—(Report of the Royal Commission on Agriculture, page 433.)

LAND REVENUE: RENT: INTEREST.

41. The charges, which the cultivator has to bear and to defray out of his produce before he can count up his own gains, are land revenue, rent, interest and redemption on prior debt. In framing the provincial questionnaire with regard to indebtedness and the rates prevalent, it was intended that some reliable estimates should come forth with regard to burden of interest charges borne by the cultivating classes. These expectations have not been fulfilled. Progress on these lines may, however, be expected from the Boards of Economic Enquiry, which every Provincial Committee has recommended.* Though the precise figures are not available, there are very important principles underlying this, to which I should like to refer. The land revenue collections all over India have been put in round figures at Rs. 35 crores. The burden of interest charges cannot be estimated on the figures given. Some of the figures include short-term financing, some of the figures are counted twice over, and some of the figures would include urban mortgages. Various other reasons indicating the unreliability of the total debt figures have been shown in paragraph 37. In the opinion of my colleague Mr. Mukhtar Singh, who has brought on the subject a close and personal knowledge of agricultural conditions, the debt figures were an under-statement. On the other hand, the actual interest charges paid, whatever the agreement may be, have also to be deduced from a bewildering variety of figures different for each locality, each condition, and each borrower, as, after indicating the margin of error, one must proceed as far as it is possible to go. It may be stated for the purpose of a very rough calculation that the burden of interest charges paid collectively by the cultivating classes would have to be put at nothing less than Rs. 100 crores, and perhaps much more if the price discount were taken into account. Though it would vary for different parts of the country and for different classes of land, it would thus come to something like three times the land revenue.

The rent payments do not arise directly, but they affect not only the standard of life of the cultivator, but also his capacity to borrow. They also come out as the first charge from the produce, which results from his activity. They are the gross payments, from which land revenue is being paid, wherever the cultivator is not in direct relation with Government. Even in ryotwari tracts, much sub-letting is going on. Over thirty per cent. of the lands are not cultivated by the occupants themselves. It is a pity that no estimates were available of the total amount, which the cultivating classes pay in respect of rent, and, therefore, the total net burden, which they bear in addition to land revenue payments. It has been stated that about 53 per cent. of the lands in India is under the ryotwari system, and in 47 per cent. there is an

* The experience of several kinds of Boards set up in this country under official aegis, has been so disappointing, and the costs have been so heavy and the results so negligible, that it would be disastrous, if the Economic Boards are also set up on the same model.

intermediary between the cultivator and the state. To this would have to be added the sub-letting in ryotwari areas, which is on the increase. The proportion of land revenue to rent has been the subject of many discussions, and in connection with the protection of the tenant against rackrenting, attempts have been made to find a formula of maximum rent payable. As many conditions affect the rent, these attempts have not fructified anywhere, but an interesting fact in connection with this may be noted. A private Bill was introduced in Madras, which did not take progress, in which it was sought to fix the amount of maximum rent payable by the cultivator as not more than two and a half times the land revenue. As land revenue itself would come out of this payment, it would give the relation of 100: 150 and it would show that an intermediary, would take from the actual cultivator one and a half times as much as is taken by the state. I have not discovered any convincing details on this line of enquiry by any Provincial Committee. I am myself inclined to think that, wherever there are intermediaries, though the conditions would vary enormously from place to place and from man to man in view of different kinds of tenures and productivity, the burden on the cultivators would be much greater than is indicated by the proportion of 1: $1\frac{1}{2}$. As measures for the amelioration of the cultivating classes generally, of which improved credit is only one, could not be effective until these facts are understood more clearly, and as revenue officials would be in a position from facts in their possession already, supplemented if necessary by local enquiry, to help, I recommend that every Provincial Government should get an estimate of the excess over land revenue payment, which the actual tillers of soil have to bear in payments to all intermediate parties put together between them and the State.

42. I am aware that there have been many discussions in this country with regard to the burden of land revenue, rent and interest charges. These discussions had been conducted in the past with some heat and with the desire to explain many things and to apportion blame. Many controversies have hung round these questions. Many prejudices and sentiments have been involved. It would mark, therefore, a progress of economic thought, if greater attention were paid to the ascertainment of economic facts as they are. I shall not, therefore, dilate here on the fact that land revenue charges are, as matters stand in India to-day, the smallest of the three main charges, which the cultivating classes as a whole have to defray, and I shall not go into the allegations that the land revenue policy has through its inelasticity, led to debts which have now cumulatively grown. Nor can one probe here into the question whether the payment of rent is a burden and whether the burden has increased and has become unbearable. The search for causes is very important. It is important to the historian, who has to explain the phenomena as they emerge in succession. It may be a useful field for research. The search for causes is also important in devising remedies. But, from this point of view, the materials placed before the

Central Banking Committee by the Provincial Banking Committees were somewhat imperfect.

In the economic field, whatever the origin of the cause may be, subsequent adjustments take place. Things do not work out always as they were intended to be worked out by those, who introduced economic measures. In order to secure this vigilance, which alone would serve this purpose, there is need of public opinion amongst those, who are affected by the measure and of timely protest by them. From the economic point of view, these are the severe limitations of benevolent direction from the top. The examination of the question, as far as has been carried on by the Provincial Committees, has, however, elicited in the remedies suggested much valuable material. The position of the agriculturist in relation to the burden, which he has to bear, and, therefore, his capacity for raising money required to enable him to carry on efficiently, needs to be examined here. I shall not go into the question as to why he should bear these particular burdens, but these questions are bound to be asked. It is necessary that they should be asked, provided they are raised not for a clean sweep, but for securing essential reforms.

43. From the point of view of the cultivator, much of the rent payments represent frozen interest, and much of the interest payments represent frozen rent. This would be true about interest, particularly where the debt is of long standing and where the heavy rate and the indirect levies have already secured to the lender the return of capital. The cultivator is not concerned with those, to whom this payment reaches. He can only think of the burden and his capacity to bear the burden and the consequences to himself when he cannot bear it and he is ejected. Thus in land revenue payments there was inelasticity in the past and one would expect the position to be better, now that rules have been framed for suspension and remission. Several Provincial Committees recommend further modifications to suit the needs of the cultivator, particularly the collection by instalments, and also regard to the time when the cultivator must part with his produce. In the payment of rents, there are different conditions in different places, but severity in collection has been known, even when the cultivator is unable to pay. The relation of landlord and tenant, both on the good side and on the bad side, has been the subject matter of literature, both serious and official, and otherwise. Similarly it has been accounted as a merit as well as a sign of great wisdom on the part of the village Mahajan that he takes what he can and when he can, but in his collections he is not unmindful of the condition of the debtor. He has the advantage over Government of direct local and personal knowledge. Elasticity in collection of all charges, which the cultivator has to pay, is necessary and all measures leading thereto recommended by the Provincial Committees should be examined by Provincial Governments for adoption. It is not with a view to encourage laxity and irregularity, but because in the nature of agriculture itself, the uncertainties of nature attached to the operations, the

uncertainty of markets, and the fact that moneys are receivable by the cultivator not by regular instalments, but when he has disposed of his produce, that considerations involving elasticity of demand become necessary.

43A. Other important considerations in connection herewith are those, which involve a review of the burden, which the cultivator has to bear, or its adjustment to a changed situation. Under what conditions enhancement should take place if at all, and how the burdens, which the cultivator has to bear, could be based on equitable grounds, is a subject, which may be just indicated here. The relative position of the various demands on the cultivator, which have to come out first from his produce, raises in one word the general question of distribution, as it is used in economic science. The question may have to be examined when statistics indicated above are available, not from the point of view of the justification of what the cultivator is called upon to pay under the three heads, but from the point of view of whether the cultivator can continue to pay these and yet remain an efficient producer. I would, therefore, recommend a close examination of all measures, which have been recommended by various Provincial Committees, as calculated to reduce or to limit the enhancement of what is payable by the cultivator to the State, to the landlord and intermediary, and to the money-lender. That these questions are correlated cannot be denied, since, if great efforts are made to secure a reduced rate of interest and thus to increase the rate of surplus in the hands of the cultivating classes, this surplus will not go to the improvement of the standard of life, or the improvement of agriculture, if it is promptly annexed wholly or partly in enhanced charges payable by him in connection with land revenue or rents. Enhancement of land revenue or rent, on the other hand, materially reduces the security, which the money-lending class as a whole has, on account of the absolute priority of these charges. The reduction of this security must tend to increase the severity in collection and to higher rates.

44. From the point of view of the cultivator, ejection for non-payment of rent, where he is a tenant, and ejection under a mortgage decree by the moneylender are the same. The measure of injury to him is not different, whether the injury is caused through one agency or another. Census figures show the increase in landless labourers and this has been considered a calamity, because the industrial organization of the country has not as yet expanded enough to absorb them. I have not seen this question examined in all its economic bearings. It has been discussed under the mobility of labour, with which it is no doubt connected. The question to ask is, what is the measure of economic distress, which is inflicted on a cultivator, who is thrown out of the land, which he cultivates, for any reason. There is the humiliation in the society, in which he has passed many years. There is little or no local demand for hired labour, which will absorb him and his family. He loses his independence. He is not used to the wage system. He does not know where his labour may be wanted

and may be paid for. Even if he comes to know that there is demand for labour, he does not always possess the necessary skill, even the minimum skill, which, what are called the unskilled labourers have, in the simple operations, which they are called upon to perform. Even when he gets the wages, the cost of living in the place, where he has to shift, is high, and under conditions envisaged, *viz.*, ejectment, he would lack the wherewithal to reach those places, where there is demand for his labour. No machinery exists at present for securing either the necessary information or for enabling surplus labour in the villages arising from this or any other cause to reach the centres of employment, or for enabling men thrown out in this manner to tide over the intervening period. Large gaps in the economic organisation of the community as compared with what obtains in other countries, would be visible, if this topic were carefully looked into. I am here concerned with the main question, *viz.*, what is the measure of economic harm to the community, when an efficient cultivator is thrown out of his land? If the land lies fallow, or the cultivation is done by a less efficient party, the community stands to lose much. With his change of status, the morale of the ejected party is affected and until he gets active again in some remunerative work, he is a burden on somebody. Legislation has been passed in various places securing protection to the cultivator against this contingency either by restriction of the transfer or in other ways. Such legislation has been justified as being in the interests of the cultivator himself, presumably because he must be saved from the consequences of ejectment. I think, in the economic interests of India, measures would have to be adopted of both kinds, measures leading on the one hand to improvement of agriculture at the hands of the cultivator, and, on the other hand, to strengthen him in every possible way as an efficient producer. That such measures would not be wholly successful and that ejectment, involving a change of status for the cultivator, could not be avoided altogether, shows the need of other measures in the direction of improving the lot of those who are rendered landless. Amongst this class come all the measures recommended by the Provincial Committees to enable the agriculturist to secure supplementary income by subsidiary industries, in which he can devote his surplus time and energy, and those that are aimed at securing the setting up of rural industries and industries in rural areas. One set is calculated to give strength to the cultivator, while he is still on the land, and the other, to expand the scope for employment generally, so as to minimise the economic distress from ejectment.

45. The Provincial Committees have examined the causes of debt in different directions. Such an analysis is useful. They have further attempted to get some idea of the purposes for which the debt was incurred. Since neither the lender nor the borrower keeps separate accounts of short-period and other debt, much light cannot be derived in this direction. Where the debt is incurred for improvement of agriculture in a manner, which will increase the gross output, such as the sinking of a well, it stands on a

different footing, but the examination of the question by the Provincial Committees discloses that the proportion of such debt to the total is small; for the rest, whatever the purpose may be, once the debt is incurred, the economic consequences are the same.

Another question examined by the Provincial Committees in this connection is the sources of the loans. The infinitesimal portion of the total accounted for by Government loans would show that credit goes to Government more for intentions than for achievement. This examination is of importance, however, in showing the amounts derived from the co-operative movement and from other sources. The prominent position of the Mahajan as the universal financier in India for agriculturists is brought out, and this points to an acute need of strengthening the resources of this class and of improving the conditions, under which they work.

The Provincial Committees have further attempted in some cases to estimate the requirements. As I have stated elsewhere, these estimates are defective. Proper estimates will have to be based, on the one hand, on the amount of total agricultural production and, on the other hand, on the value of land, which is the pre-eminent security apart from the crops. The Bengal Provincial Committee, in estimating the burden of rural debt in Bengal, have very properly brought in this important criterion. They say: " Unfortunately, in Bengal there is a large body of intermediaries between the cultivator and the State, having varying interests in land. Leaving them out for the moment, if we assume that the whole of the cultivated land in Bengal, *viz.*, 23 million acres according to the return for 1928-29, valued at Rs. 300 an acre on an average, belonged to agriculturists, their property was worth 690 crores of rupees. Thus even if a liberal allowance is made for intermediaries, the Bengal raiyat is far from insolvent." The method of reasoning is correct, but it is for Bengal economists to test the conclusion and to say whether the Bengal raiyat with a total debt of Rs. 100 crores (possibly an underestimate) including Rs. 62 crores of long term debt, is far from insolvency and can be helped without radical measures. It is not merely in order to test whether the amount of credit raised at present is heavy, but in order to see how much total volume of credit would be required, that the value of possible securities, against which such credit can be raised, should be considered. It gives the necessary limit in thought and would be a very great corrective, to all those enthusiasts for different measures already adopted, such as Government loans and the co-operative credit movement, who dwell more on what has been done than on what needs to be done.

" If the mortgage bank is needed as a weapon against the Sahukar, in time it will be doubly needed against the agricultural moneylender. Without its protection there is a danger that, despite the Land Alienation Act, the expropriation of the peasant may begin again on a large scale. There are already possibilities in the Western Punjab, where the large landlord is taking advantage of the Act to add to his acres at the expense of the peasantry." (" Rusticus Loquitur " by Darling.)

CHAPTER V.

RURAL CREDIT; IS THE SUPPLY ADEQUATE ?

46. The following extract from a statement by Sir Daniel Hamilton before the Chamberlain Commission throws useful light on the problem and is still substantially a true picture.

" The great want, or what I may call the fatal defect, in Indian banking is that it makes absolutely no provision for the financing of the great industry of the country,—agriculture. Two hundred and fifty millions of the people of India are directly dependent upon agriculture, and yet the gigantic industry has hitherto been left to the tender mercy of the small money-lending capitalist. There are Presidency and Exchange Banks and other financial conveniences for the trader, but the most important man in the country, the man upon whom all India depends, the man without whom neither the trader nor the banker nor Government could exist, is left outside the reach of cheap money. The producer, when he wants to borrow, as he always does, has no security but his labour and his ungrown crops to offer, and as he is already practically insolvent, and may die before his crops are reaped, he has to pay for his finance whatever price the man with the money chooses to ask. Trade cannot increase unless produce increases and produce will increase in exact ratio to the inducement offered to the producer. If the producer has to pay anything from 25 to 100 per cent. for his finance the inducement to produce is wanting, for it means that all he makes over and above his bare living goes to his creditors. The secret of successful industry is to buy your finance cheap and sell your produce dear. The Indian buys his finance dear and sells his produce cheap. His creditor generally fixes the price of both. The ryot feeds the financier in the fat years and the Government feeds the ryot in the lean. Trade flourishes on the labour of a bankrupt people, for three-fourths of the people of India are unable to pay their debts. The country is run by a system of forced labour, the force being that of the moneylender. Ought Government to look on in the good years and watch a large portion of the surplus gold buried by the small minority, or ought it to intercept all the gold it can for the benefit of the people?

" We see in British India to-day 250 millions of people living off 250 million acres of land. All the wealth the people can ever hope to have is what each can get out of his little one-acre patch and the patch grows smaller as the years go on, for the population increases, but the land does not. If the people of India have only this to look forward to, is it not absolutely essential that they, and

not their creditors, should reap the harvest which they sow? but they never will reap it while the present financial conditions last. Government is now making great efforts, and rightly, to improve the agriculture of the country, but unless the people themselves are to get the increase resulting from their labour the efforts of Government will be very largely in vain. Improved agriculture and improved finance must go together. It is the organisation of its capital that India wants more than its increase. There is plenty of capital in the country, but it is mainly in the wrong hands,—the hands of the non-producers. The greatest economic problem before India to-day is how to shift the control of capital from the hands of the non-producers to those of the producers of the country's wealth and until that problem is solved we shall look in vain for much progress. * * *

"Within the last few years a number of new banks have come into existence; but they have not the resources at their command to finance the agriculture of India, even if they were to cater for that business. It is not lacs of rupees that a business of this magnitude requires, but hundreds of millions sterling, for, large though the external trade is, the internal is greater still. The financing of 250 millions of Indian agriculturists who are now out of the reach of cheap money, is a big problem, and wants something big in the way of banking."

46-A. The idea of securing for the agriculturist accommodation at reasonable rates and on reasonable security is an old one. Several schemes were put forward before the Famine Commission of 1880, but were rejected. In 1882, Sir William Wedderburn made a proposal, which involved "a liquidation of existing debts with the assistance of Government and then the establishment of a bank to take over the claims of Government under the liquidation scheme and to make further advances to the people. The bank, after taking over government claims, was to be entitled to recover its dues as land revenue." The scheme was turned down by the Secretary of State, but the discussions in connection therewith brought on the statute book in India the Land Improvement Loans Act in 1883 and the Agriculturists Loans Act in 1884. "These measures differ greatly from the previous schemes in that private management and any attempt at wholesale clearance of debt are entirely absent."

Public opinion in India has always expressed itself in favour of a big enough measure to deal with the question of agricultural credit. Thus Sir Dinshaw Wacha, before the External Capital Committee of 1925, said:—

"Simultaneously, it is also essential that India should possess agricultural banks, with their kindred auxiliaries or feeders in each province of the Empire, say, with a capital ranging from 2 to 5 crores at the outset. Such banks should be modelled broadly on the lines of the Agricultural Bank of Egypt, so beneficially fostered

by the late Earl Cromer. Of course, the local conditions of each province will have to be taken into consideration. Co-operative Central Banks may serve the useful purpose of fertilisers to each Agricultural Bank."

The Royal Commission on Agriculture, analysing the need for long-term loans, praises the working of the Dawson's Bank. "It depends mainly on first mortgage security and furnishes a good example of what can be accomplished by private enterprise in an area in which harvests are secure, land valuable and readily marketable, and competition limited. Its chief interest for our present purpose lies in its resemblance to what appears to be the popular idea of an agricultural bank, except that it is entirely independent of official support."*

The preference of the Royal Commission for private enterprise in this field is obvious. Dealing with the Agricultural Bank of Egypt, the Royal Commission say: "Facile credit once again proved itself to be a grave danger to those unaccustomed to its enjoyment. The bank had not sufficient machinery to examine the suitability of applicants for loans, nor, indeed, did the duty of examining any security for loans lie with it. Over-borrowing and the squandering in unproductive expenditure of the money borrowed, soon brought their accustomed penalties."*

It is not obvious whether the blame in Egypt lies more on the borrowers than on the lenders. If the bank could not examine the suitability of the borrower, or the security offered, it must fail. After all, on the economic side, the foundation even of the co-operative movement is, that there is some selection with regard to the borrower and at the time of the establishment of the society, there is some examination of collective assets, on which loans are given out.

"In fact, cheap credit is a blessing to a rural population only where the average cultivator is possessed of the knowledge and strength of character required to induce him, on the one hand, to limit his borrowing within the range of his capacity to repay, and on the other, to apply the greater part of the borrowed money to sound productive purposes. To lavish easy credit on those unaccustomed to its proper use is to condemn the borrowers to certain financial destruction."

47. The warning uttered by a body of men, such as the Royal Commission on Agriculture was, could not be ignored, but I want to show that to some extent the Royal Commission have stopped short of their process of thought in the financial analysis. To some extent, they contradict themselves. Even while they were condemning the Egyptian experiment and assistance to agriculture by large funds from the state, the Agricultural Credits Act of 1928

* Royal Agricultural Commission Report, paragraphs 356-357.

was launched out in the United Kingdom, involving substantial concessions and large sums from the state.*

Having examined this question a little further, they come to the following conclusion: "The obvious alternative to a system of loans from the state is the land mortgage bank."

With regard to land mortgage banks, the Commission found that: "Such limited experience of land mortgage banks as is available suggests that the loans taken from such banks are much less frequently used for land improvement than they are for the redemption of old debts."†

We had before us in evidence the fact, that even where debts were redeemed, and the burden was reduced, regularity in the payment of the instalments, which would go to pay interest as well as to reduce the debt, was not observed. Obviously in direct relationship with the borrower and the bank, the experience so far tends to point that the results would not be satisfactory on either side. Hence my suggestion for the intervention of the guarantor on lines put forward in paragraph 76.

48. The grave danger of facile credit, to which the Royal Commission draws attention, and from which they presage certain financial destruction to borrowers, needs to be examined with reference to the proposals, which I have made. It is quite true that moneys borrowed on mortgage may not be used for land improvement. It has been found difficult, in spite of very drastic rules, to ensure that Government loans under the Land Improvement Loans Act are used for improvement. Similar complaints have also been heard in connection with the co-operative societies, where the control ought to be easier. If the money lent out could be followed up, it would be an excellent thing, but in practice there is a limit, to which such control can be kept. The alternative would therefore be either to deny credit facilities altogether, and by this means to eliminate also the dangers of wastefulness through credit, or to give maximum facility and to trust that, with the growth of education, a greater portion would be devoted to land improvement.

The financial destruction of the borrower, however, merits a closer attention than has been given to it by the Royal Agricultural

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* The Agricultural Credits Act of 1928 led to the constitution of The Agricultural Mortgage Corporation, Ltd. in England. The Act gives various powers to the Corporation, including the power to create a general charge. Leading banks have participated. Government will advance up to £750,000 free of interest for 60 years, for constituting a guarantee fund. A further contribution of £10,000 a year towards current expenses is also mentioned. Government would assist in under-writing debentures up to £5,000,000 and would itself subscribe up to £1,250,000. The debenture stock of the Land Mortgage Bank is made trustee security. The rules, under which the Bank may make advances, are framed and it is provided, amongst other things, that advances must not exceed two-thirds of the estimated value, and the redemption period should not exceed 60 years.

† Report, paragraph 360.

Commission. The evil of a heavy burden of debt has been put forward in lucid terms by them:—

"The existence of a heavy burden of debt of this character exercises a most detrimental influence on agricultural progress. This is due not only to the fact that an important source of credit is drained for unproductive purposes and that the potential credit available for improvements is correspondingly curtailed, but also because it is found that, in the case of usufructuary mortgages, the mortgagor too often declines to the position of a permanent tenant under the mortgagee, paying, not a fair rent, but the utmost the lender can extract or extort."*

Where a man is already carrying an overload of debt, the creditor can act in his own interest in many ways. In such cases, it is not the question of beguiling the unsuspecting borrower into treacherous regions of facile credit. The object of state policy should be to extract him from the morass of heavy interest rates, semi-slavery and helplessness, and lead him to a position of solvency and freedom from debt. The substitution of a debt at a lower rate than the existing one would not create the danger until several instalments go towards capital redemption and enlarge the field of available credit on the same security. No doctor would, however, refuse to give the prescription for improving the condition of the patient, through the fear that the patient might lapse back into the same state of malady.

49. If I am criticising the finding of the Royal Commission, it is not in order to go counter to them but in order to show that the wise words of caution uttered by them should be taken into account. A further analysis shows, that measures could be devised after assigning due weight to them. Every new facility in the world gets abused, and for parties, who have really something to bororw upon, it has not been suggested anywhere in evidence before us that the moneylender will not lend. On the contrary, it has been said that the more substantial the cultivator who desires to borrow, the more anxious is the lender to create a good client, to whom he can lend safely, and without much enquiry. It has further been shown that often the moneylender is anxious to hold on to an old mortgage document even after partial repayment has taken place. He wants to save the expense of further document and to sit on a larger measure of security than would be available on a new document. He is, therefore, more lavish in accommodation under such circumstances.

So long as the cultivator is left free to borrow from outside sources, the utterance of superlative caution against facile credit, even when the sources are organized at the top and work under carefully devised rules and periodical accounts and examination, causes confusion and is not helpful.

How far acts specially devised to restrict credit in the interests of the improvident cultivator have not been successful, could be

* Report, paragraph 352.

seen from the reports of Provincial Committees. In intermittent economic measures success, however, could hardly be gauged and often there is much room for self-delusion to the legislator and the administrator, that they have done something to the best of their ability and with the very best intention, and yet in practice just the parties, for whose benefit the measures may have been conceived, may suffer. The substitution of cheap credit for dear credit, other factors remaining the same, cannot harm the borrower, where the debt is already incurred. To what extent high rates, at which moneys can be raised, are deterrent to cultivators, who intend to borrow, has not been shown anywhere in our evidence. Emphasising the general principle that they must be deterrent and that they must be less attractive than if borrowing could be done at a cheaper rate, would not be correct in the conditions of Indian agriculture. The cultivator borrows obviously for things, which are in his opinion absolutely essential to him. His borrowing may be divided in three classes: for redemption of old debts, for social occasions, and for purposes connected with the land, *viz.*, permanent improvement, seeds, manure, current expenses, etc.

50. The expenditure of the Indian agriculturist on social purposes has been much noticed, but I have to advance an economic justification for his action and save him from an intolerant reproach. When tradition fixed the ceremonies and the accompanying feasting and outlay going with the ceremonies, it fixed them on a reasonable basis and within the reach of the average party. If the economic condition of these classes weakened faster than the social change and adjustment could come, the burden of these observances might increase. It is possible,—and this is a topic for economic research scholars to ascertain,—that a hundred years ago this programme did not prove to be as much out of the reach of the average cultivator and as costly to him as it is to-day. Money economy and the general rise of prices compared to the old days and the larger use of items not locally grown or produced might have made a considerable difference. All classes in the world would find it difficult to adjust themselves to a condition of falling wages, and if there is a parallel between that condition and the process through which the Indian cultivating classes are passing, the Indian agriculturist deserves sympathy and not reproach.

Expenditure on social occasions is an unavoidable charge everywhere in the world and could be only condemned where the expenditure is out of proportion to the economic capacity of the party. In India social and other customs often compel a man to spend on a certain scale, even if his means are below the average. This can only be improved through education, enlightenment and social reform. Except in isolated cases and for these purposes, the idea that at cheaper rates the cultivator will borrow much more than he is doing now, cannot be supported. Whenever he can borrow, he does so whether the rate is fair or high. Freedom from debts is a question of prestige. When the tide turns the other way, the agriculturist has some money of his own. He adds much to his prestige

by lending it out. Excessive stress on the lack of thrift and habits of improvidence of the Indian agriculturist has been the result of those broad generalisations, in which the foreign observers of this country have indulged. Improvidence amongst rural sections has been the theme of writers from the dawn of the organization of human society in all countries. But in India foreign criticism had to be accepted and deferentially passed from one authoritative official document to another, and it gradually acquires the dignity of a postulate and the sanctity of a truism. I am referring to this because of the vicious implication that, so long as the Indian cultivator remains improvident, cheap and facile credit is dangerous for him. The improvidence of the Indian cultivator arises from the fact that he is an Indian cultivator, grown up under Indian social traditions and under a lack of education after 150 years of British rule. Neither of these conditions in his case can be removed quickly in a day. If, therefore, the organization of the necessary credit structure for him is to wait till this time, that organization will never come. The only exception, which official pundits have made to this restrictive line of thought, is the co-operative credit movement. On the advantages and limitations of this, I have dealt with in paragraph 95. It is outside the co-operative movement for the large body of cultivators, who, if willing to come into the movement, are not taken, or, who, with the unexpected exercise of caution and enlightened self-interest, see the dangers in the collective liability, which the co-operative movement involves. A few lakhs of rupees lent out every year in each province by way of Land Improvement and Agriculturists Loans Act cannot touch the real problem and the money-lender would reign supreme. In public interest, it is therefore desirable to examine these cheap dictums in connection with facile credit and not to allow them unduly to hamper the devising of measures calculated to minimise the dangers, which are heavily exaggerated.

Is Cheap Credit an Evil?

51. The bogey that credit can be too cheap need not worry India, till it is established that it is not too dear. At present an agriculturist, who is the full owner in some provinces of the occupancy rights, has the power to deal with his property and his produce. Assuming that he is not in debt, he can get into debt. If he is not in debt, there are people willing and able to lend him on the security, which he can offer. It is the unanimous opinion of all Provincial Banking Committees that the rates, which an agriculturist has to pay when he does not deal with a commercial bank, which is not frequent, or a co-operative institution, which is confined to a fringe of the population and which requires from him an unlimited liability, are very high. When the debt is well secured and at a high rate, the lender is happy to leave it there without pressing for repayment. In fact, as he is seeking investment for his money on safe terms, he may even press for further loans on his client.

The borrower in this way is lulled into a sense of false security, so long as he does not exceed what the lender considers to be a margin of safety in lending. When that position is reached, the client is drawn into a position, from which he cannot extricate himself. That a high rate of interest is deterrent to borrowing is not borne out. Until the borrower is clear and alive to the idea of prompt and regular repayment, which he always is not, even if he is a member of the co-operative society and has been lectured upon, cheaper loans will not cause greater ruin than has been caused by dearer loans. The facility for borrowing and elasticity of methods could not be greater than those of the moneylender. Many provincial reports have mentioned the rigidity of the rules of the co-operative societies, which militate against greater use being made of them and against their membership. Easier rules, therefore, in securing credit at cheaper rates cannot in themselves increase an evil.

Remedy.

52. But the evil can be decreased by the fact that, by adroit handling and care, interest payments at present would in many cases be made to go not only towards interest, but towards repayment of a portion of the loan. The total indebtedness might increase through new loans, but the charging of compound interest at heavy rate, which eats away the vitals of the agriculturist, might be checked. Some provincial reports mention that members of co-operative societies are actually more indebted than other agriculturists, and others mention that their debt, instead of diminishing, is actually growing. To an economist, statements of this kind cannot but indicate that the evil is deeper. It must also prove that, instead of being reduced, the evil is being increased. Some societies show good results, which only means that some agriculturists, who are members of the co-operative movement, manage gradually to improve their position and come in the class of agriculturists, who are free from debt, which is a smaller class. It is desirable to increase that class. To the extent to which the co-operative movement does this it is achieving a good result, but many supplementary measures are necessary to quicken the process or reach those who are out of it.

Without being charged with undue pessimism, it appears to me that a silent revolution is going on, by which the independence of many agriculturists is being gradually sapped. The financial dependence of the agriculturists on other classes, whom they are unable to pay fully and to whom they, therefore, pay all that they can, must tend to reduce their standard of life and to destroy their motive for larger production.

The process should, therefore, be to increase the number of agriculturists, who are free from debt and to put as many of them on the path towards such freedom as possible, so that when one set of agriculturists get ruined, there are at least equally com-

petent agriculturists in the district, who would be willing to take up the land and cultivate it to its best capacity.

Is the Supply of Capital Adequate ?

53. I have not been able to reconcile myself to the ideas on the subject, which I found in the chapter on finance, of the Royal Commission on Agriculture. They say:—

"Speaking generally, we consider that what is lacking is not so much capital for land improvement as ideas for utilising it for productive purposes. In no province did it appear that the work of improvement was in any way restricted by shortage of funds for loans under the Land Improvement Loans Act. Local Governments are everywhere willing to make a larger provision for this purpose if there is a real demand for it for productive works. There seems no reason to believe that the village moneylender hesitates to advance funds for such objects. The security for long-term loans of this character is usually a mortgage on cultivated lands and there is ample evidence that the total sum invested in such mortgages is many times that part of it which has been used for land improvements."*

According to the Royal Commission themselves, only a fraction of mortgage loans goes into permanent improvements. For the section that is outside the co-operative movement, what comes from Government and what comes from the moneylenders has not been anywhere considered adequate. The inadequacy is further illustrated by the rates. The rates, at which the state gives loans under the Land Improvement Loans Act, are fixed and are not very high, but the rates, at which the agriculturist derives his money from the moneylender, are very high. High prices in economic literature connote scarcity. The price for money, which is going directly and definitely in land improvement, ought not to be high, since the land improvement *ipso facto* increases the value of the land and adds to the general asset value of the security. Assuming that it has to be as high as it is, averaged out and mixed up with loans for other purposes, there is an indication of the general scarcity, from which the requirements of a good purpose also suffer and the idea of the general scarcity for loanable money in rural districts, which has been brought out in various Provincial Reports, is in direct conflict with the dictum of the Royal Commission that it is not capital, which is lacking, as ideas for utilising it for productive purposes. I would stress, that primarily it is the dearth of capital available to them. If, by a magic wand, the savings of the agriculturists in India could be increased for the next five years, even if much of these savings were disposed of in other ways, there is not the slightest doubt that some of it would go towards the improvement of land. The agriculturist, as he is, cannot save much and even where he has ideas, he has not the money to put those ideas in practice.

* Report, page 428.

AGRICULTURISTS LOANS AND LAND IMPROVEMENT ACTS.

54. For short-period borrowing, the Agriculturists Loans Act has proved useful in the provinces in varying degrees. According to the Royal Commission on Agriculture:—

"It is argued that, in normal times, the system of government loans is inimical to the growth of a healthy spirit of self-help; that it runs counter to the teaching of co-operation and that it leads to demoralisation."*

It is further pointed out that "Government can never find the whole sum required to finance normal agricultural operations, and that, therefore, their attempt to find a part of it merely leads to anomalies.....The Act can never be the means for meeting all the normal requirements of agriculture; but it is of great value in certain contingencies. It is being gradually displaced by the co-operative credit system which already provides far more capital annually than Government."*

The demand to confine the use of the Act to periods of distress and scarcity and, therefore, to suspend its operation in normal times, has been supported by arguments adduced before the Royal Commission. In this matter also, while rates of advance, both by Government and by co-operative societies, are fixed from the top and without any reference to local monetary conditions, the rates payable by the agriculturist to the Mahajan and to the agriculturist moneylenders are very high. These high rates indicate a dearth of money. The issue is not whether supplies of Government funds have become unnecessary, because the co-operative movement has actually more funds to put out in the year, or because the funds available in the movement cannot be fully employed.

The amounts lent out under the Land Improvement Act and the Agriculturists Loans Act in the various provinces were as follows:—

	Land Improvement Loans Act.	Agriculturists Loans Act	Remarks.
	(In thousands of rupees.)		
	Rs.	Rs.	
Madras	12,70	11,54	Relating to 1927-28.
Bombay	13,72 (in 1926)	9,57 (average of normal years)	Figures for each type of loan not separately available for all years.
Bengal	93	14,41	Relating to 1928-29.
Bihar and Orissa	70	8,34	Average of five years.
Assam	7	1,50	Average of five years.
Burma	20	1,90	
The Punjab	5,00	11,00	Average of five years.
Central Areas	1,70	1,58	Average of three years
	35,02	59,84	
Total	94,86		

* Report, paragraph 362, page 430.

Some of these figures would vary from year to year according to the existence of distress in provinces particularly in the case of the Agriculturists Loans Act.

The Royal Commission on Agriculture say:—

"Further elasticity would probably make abuses easier without materially assisting the cultivator.....The Act can never be the means for meeting all the normal requirements of agriculture."*

The working of the Land Improvement Loans Act and the Agriculturists Loans Act in various provinces has been reviewed by the Provincial Committees. The need for wider publicity to enable cultivators to take advantage of these Acts and for removing abuses in connection with the administration of these Acts has been emphasised.

55. These Acts were instituted as the results of conditions brought to light by the Famine Commission. The attraction is that the rates, at which loans are given, are low, but most of the Committees have pointed out that in rural districts full information is not available regarding the facilities, which Government are willing to give. It has been brought out that there are numerous delays in passing applications for loans, that parties are selected on the recommendation of district officers, and that they are not always the parties, who are most needy. It has been further shown that the amount of advance made is limited by rules and does not satisfy the full requirements of the applicant. Various improvements in this direction have been pointed out by the Provincial Committees, and I do not wish to burden this report by going into details, on which the Provincial Committees have dealt with care. There are differences in the Provincial Reports with regard to whether such loans should be distributed through co-operative societies wherever they exist. The procedure must depend on local conditions and should be determined on its merits by Provincial Governments. The existence of the Acts on the statute book is a direct proof that Government have accepted the principle that the cultivator is entitled to assistance and encouragement, and to the extent to which the loans are being given, relief must be reaching the borrowers. That this machinery, which has been characterised by the Bihar and Orissa Provincial Committee as sporadic, is likely to do more harm than good and that in normal circumstances it cannot in any sense be a substitute for the greater measures, which I recommend, must, however, be emphasised. Government cannot find all the moneys, which are required for current finance, or again for long-term loans.

56. The funds made available to the agriculturist by Government under the two Acts and by the co-operative movement together, are a very small fraction of the funds actually required by the cultivator, and also of the total funds, which are made available to the cultivator from all sources. Some Provincial Committees

* Report, page 430.

have estimated the requirements for short period in the province. The estimates are as follows:—

"The total requirements for the short and intermediate loans are estimated by the Bengal Committee at Rs. 96 crores for Bengal (Bengal, para. 121); and by the Bombay Committee at Rs. 32½ crores for Bombay (Bombay, para. 76). The Central Provinces Committee estimate the annual requirements for seasonal and short-term loans at over Rs. 7 crores. The intermediate loans will, it is said, amount to a considerable sum and both together will be about three or four times the total provincial revenue. (Central Provinces, para. 101). The total annual crop loans of Burma are estimated at about Rs. 20 crores (Burma, para. 149)".

57. I do not put much credence on these estimates. In my opinion they are an under-statement*. The thing has not been worked out. Nor did we have the time and material to work it out. I would, however, indicate briefly the method, by which this should be worked, and that would be to make an estimate of total agricultural production, whether it is for the whole country, or for a province, or for a district. It would then be necessary to consider the number of actual cultivators, who are not in debt. For those, who are in debt, the total cost of cultivation would have to be borrowed. For those that are not in debt, a smaller amount would have to be borrowed. Some of them would probably satisfy the whole of their requirements without the borrowing, and some of them may be actually in a position to lend out.

The requirements for short-term finance would have some reference to the total production, though the same finance might do where more than one crop is taken out on the same ground in the year. No accurate figure of the value of total production in India from agriculture alone is available.†

* In Bengal the value of the crops is put at 244 crores and the finance required for short and intermediate loans at 96 crores, *i.e.*, about 36 per cent. In Central Provinces the local committee put the value of the crop at 79 crores and finance for short loans at 7 crores giving about 9 per cent.

† Such a figure would not only vary with the variation of prices in different seasons and different years, but care will have to be taken if it is to be used as the basis of calculating financial requirements of the cultivating classes, to take the price, not at the centre of the wholesale market, but as near to the Mandi, where the village produce comes to be sold, as possible. For a calculation of India's total wealth production, the wholesale price would be a proper price to take, and the warning is necessary, because most calculations, that I have seen, appear to have been made on this basis.

	Value of crops in crores (1928-29).	
Bengal	244	Figure nett after deducting marketing price.
Central Provinces	75	No estimate made.
United Provinces	...	Figure of 1927-28 subject to limitations *re* accuracy.
Bombay	158	Value given for crops of 33·2 million acres out of a total of 38·9.
Madras	164	Various items would have to be added to arrive at total gross income of the cultivator.
Bihar and Orissa	...	No total estimate given.
Punjab	99	
Burma	...	

From the point of view of the cultivating classes, it is true that a period of sudden boom would tend to reduce the burden, where the full benefit of the high prices is transferred to the purchaser.* A succession of good years, such as India has had, would ease the situation, whereas a contrary period of low prices, or failure of crops for any reason, would intensify the burden. There is no crop insurance in India, nor indeed any kind of insurance affecting the cultivating classes.† It seemed to be the general opinion of the Provincial Committees that, though some moneylenders are harsh on some borrowers and there are some malpractices, yet as a class they strive to enable their clientele to tide over a bad period arising either out of the general conditions affecting all, or out of the individual circumstances of the borrower.

58. Estimated from this point of view, the supplies, both from Government and from the co-operative movement are woefully short of the requirements. The supplies from the Mahajans are many times as much as what comes from these two sources, and what is available from all the three sources is also less than what should be available. If this were not so, the price would not be high. There would be no demand for elasticity in methods of collecting land revenue or for the introduction of the instalment system in those collections. There would be no complaint that the actual cultivator has to part with his produce very cheap and has not the holding power, which would enable him to spread out his sales, or to keep out at unfavourable moments from the market. The course of prices at various Mandis in the staple agricultural products of India should be collected in order to check this fact. It may then be brought out that prices slump to the lowest point during those weeks, when the largest amount passes out of the hands of the primary producer into the hands of the merchants, and that the discount in price to the cultivator is an indirect imposition of a heavy rate of interest. I regard this symptom as definitely pointing to a dearth of loanable capital.

Can the Moneylender be replaced by the Co-operative Movement?

59. In connection with this, I cannot help quoting from the Royal Commission on Agriculture:—

"In the present state of India, he (the moneylender) is a necessity and, that being so, his calling will not be abolished by making it illegal. He alone is in a position to provide the bulk of the capital required for current agricultural needs and, on a recurrence of severe distress, he will continue, as in the past, to support the people by timely loans. If he is ever driven

* Refer to paragraph 91 dealing with Central Markets and the prices received by the cultivator.

† See note on Cattle Insurance in Annexure VI.

from the land, it will not be by legislation but by the growth of the co-operative movement and, more especially, by the habits of thrift inculcated by that movement."*

I regard the expectation, that the growth of the co-operative movement will replace the moneylender completely at any time, as chimerical. I have given reasons for this opinion in the chapter on Co-operation, pointing out the limitations to the growth of the co-operative movement in the country. With regard to the habits of thrift inculcated by the movement, I have pointed out elsewhere, that members' deposits in primary societies are largely the result of compulsion and not of thrift. They represent an arbitrary deduction from the loans and must be regarded by the borrower in the nature of a higher rate charged to him. The moment to save money is not the moment when one is about to borrow it. Even men located in a much higher station than the Indian cultivator is, and endowed with greater powers of perception, will find it difficult to reconcile their dual position, coming, as it would, at the same moment. Looked at economically, thrift in this case is fictitious. That thrift of this character will secure the accumulation of funds, which will drive the moneylender out of the land, is a position, which I find it difficult to accept. I have dealt elsewhere with the question of thrift by the cultivator and the impossibility of it. What meagre possibilities there are in this direction, is borne out by the view of the Royal Commission themselves a little further as follows:—

"To a very great extent, the cultivator in India labours not for profit nor for a net return, but for subsistence."†

Men, who labour for subsistence, must subsist. They cannot save. Their capacity to save is extremely limited. They have to be placed in a position to save and the support to the agricultural life of India from thrift amongst the cultivators, can only come, when the lot of the cultivators is improved.

"Where thrift is absent, the vagaries of the monsoon drive the people to borrow and, unless the co-operative movement spreads into every village and includes every inhabitant in its fold, borrowing will continue."†

In the light of this, I cannot share the optimism of the Royal Commission on Agriculture, who say:—

"For the small cultivator, the necessity to sell shortly after harvest can be removed by organised thrift such as is provided by the share or compulsory deposit systems in village credit societies; the experience of such societies seems to indicate that the exercise of thrift for ten years or so would enable most cultivators to dispense to a very large extent with the necessity for borrowing for current agricultural needs.‡

* Report, paragraph 363, page 433.
† Report, page 433.
‡ Report, page 429.

60. Without seeking to discourage any good effort in this direction by the co-operative movement or by any other kind of saving institutions, which may be set up, I feel that opinions of this kind are unduly optimistic. They are not based on an examination of the economic position of the cultivator. They raise hopes, which are destined to be frustrated. Such opinions will not stimulate the searching enquiry into remedial measures to cure a difficult situation in the agricultural districts in India, which has become very necessary. To expect that the structure of rural credit can be raised in the agricultural districts from the savings of the agriculturists themselves, which will render borrowing by them unnecessary, is tantamount to turning down all other suggestions for improvement from outside without a proper examination. The majority Committee have made definite recommendations with regard to land mortgage banks on a co-operative basis, as well as with regard to agricultural banks on the model of the English Act. If the thrift of the cultivating classes was coming in every year, in the manner, which appears to be indicated in the above opinion of the Royal Commission, it would release outside moneys now engaged in short-term financing, and it will render the problem of long-term financing much easier than it really is. The expectation of the Royal Commission on Agriculture has not been supported and most of the Provincial Committees recommend the establishment and extension of land mortgage operations accompanied by active measure of support from Government in various places.

The Agricultural Moneylender.

61. The most marked feature of rural economy in India as the result of the examination of Provincial Banking Committees, is in my opinion the fact that the agriculturist himself is doing a substantial amount of moneylending.* This should leave no room for the emphatic note of caution with regard to the development of credit in rural areas on account of the ignorance of the people either in the use of the money or in the use of the credit. In appraising the worth of the security and the capital of the party in question at the time of loan, the agriculturist would beat every other credit agency. No particulars are available as to whether

* Punjab report: Moneylending is a particularly attractive form of investment to an agriculturist, who is not a Mohamedan..... The agriculturist moneylender is one of the credit agencies, which is displacing the village sowcar, his growth having been stimulated by the Land Alienation Act ..... But he is avaricious and exacting.

United Provinces report: Of the amateur moneylenders, the most important is the agriculturist moneylender, namely, the landlord who lends to his own or somebody else's tenant, and the tenant with surplus resources, who lends to his fellow cultivators..... The tenant moneylender in search of land is the most merciless and exacting of all usurers.—(United Provinces, paras. 110—117, 202.)

Madras report: "Landlords and ryots give loans in kind as well as in cash with a stipulation for repayment in kind. Such loans involve repayment with 25 to 50 per cent. of interest.—(Madras, para. 471.)

the agriculturist, who lends to a fellow agriculturist, loses much, or has much difficulty in recoveries out of court. I would recommend some particulars of this to be secured for selected places in each province as they have a very great and direct bearing on the whole problem.

The usurious character of these loans has been remarked upon in most of the Provincial reports. Much would depend upon whether loans come to be made after a fruitless application by the borrower to the local Mahajan. In any case the agriculturist moneylender is certainly entitled to take what he can according to the current standards of the market. No one can blame him from making a bargain favourable to himself and for stretching a point in his own favour just short of losing the transaction.*

The significance of these rates is great. It signifies for one thing that these moneys could not be attracted into the savings bank, and that an increased rate would not attract them in any other savings or deposit scheme, which could be devised. They further denote the impossibility of attracting these parties into the co-operative movement as members taking over unlimited liability for other people's debt, or deposit their own funds in primary soiceties and central banks at the rates they allow. No credit agency, which has to spend money on administration and which would, in some cases lack the local knowledge as well, could compete with the agricultural moneylender. The danger, which every other class of moneylender has, of the bother of taking over the land and finding a tenant therefor is not one, from which the agriculturist need fear. From the point of view of the community the passing of more land in the hands of capable and resourceful agriculturists would not be an evil. It is also possible that the purposes, for which, and the security on which, the agricultural moneylender lends, are such as not to appeal to any other credit agency. Taking all these factors into consideration, the

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* Indication with regard to the rates of interest has been given by various Committees, subject to the limitation that they vary under different conditions in different districts and according to the nature of securities:—

Assam	12 to 75 per cent.
Bombay	12 to 25 per cent., rising to 50 per cent. in Sind.
Bengal	Minimum rates are 10 to 37½ per cent. and maximum 37½ to 300 per cent.
Bihar and Orissa	From 18¾ to 37½ per cent. for cash loans, and from 25 to 50 per cent. for grain loans.
Burma	18 to 24 per cent., but for small unsecured loans 48 to 60 per cent.
Central Provinces	12 to 24 per cent., rising to 37½ per cent. and grain loans 25 to 100 per cent.
Central Areas—	
Ajmer-Merwara	Secured 6 to 13½ per cent., unsecured 12 to 18 per cent.

question, which one has to ask is, is it possible to replace this agency? Is it desirable?

I have no hesitation in saying that it is not possible to replace the moneylender as a whole and the agriculturist moneylender in particular by the co-operative credit movement, by Government themselves stepping in the field, by the machinery of ordinary banks, by commercial land mortgage banks, or by any means whatsoever. I can find the support for this view in several reports of Provincial Committees so far as the moneylender as a class is concerned.

62. How is the borrower then to be saved from the heavy burden of interest charges, which he has to bear? The only other method appears to be to take those steps, which will tend to bring money rates down all along the line, and this decline must ultimately affect all money contracts including those between the agricultural moneylender and his client.*

To me as an economist, the co-operative movement, shorn of all its frills and ornaments, appears to be nothing but the mechanism for bringing money from the central market back into the districts and for lending it out under a set of rules. It is essentially a huge borrowing machine. As I am going to recommend another scheme and to claim for that scheme in some direction the best attention of the state and every possible encouragement, I should not be misunderstood as in any sense running down the co-operative movement or scoffing at it. If I plead for an alternative method on lines that I consider safe for everybody concerned and of great benefit to the state and the people, it is not for the purpose of disparaging the co-operative movement, but for advancing its principal goal, *viz.*, the welfare of the country.

Delhi	12 to 24 per cent.
North-West Frontier Province .	Secured 6 to 18 per cent. Other cases 12 to 36¼ per cent.
Trans-Frontier Province .	Money rates 75 to 100 per cent.
Madras	12 to 24 per cent., rising to 36 and 48 per cent.
Punjab	6 to 12 per cent. for secured loans. Unsecured, rates not mentioned, but rise to any figure.
United Provinces . . .	7½ to 12½ per cent. for commercial and mortgage debts. 18 to 37½ per cent. are the charges of the village moneylender. Grain loans 25 to 50 per cent.

* In view of this I cannot but regard it as mere misplaced zeal on the part of those, who expect the moneylender as a class to put his money on deposit with co-operative banks, or to join the co-operative societies. The variety amongst the moneylenders is great and their rates are high and some of them still higher. It will not be benevolent moneylenders, who will join the society, but those moneylenders, who, while keeping their hold on securities, desire to recover arrears, or the use for their own purpose of cheap advances coming from co-operative central banks, who will set up co-operative societies from their own debtors, and run them as long as possible for their own purposes and then get them scrapped.

CHAPTER VI.

SCHEME OF LAND MORTGAGE THROUGH GUARANTORS.

63. *Facilities for long-term credit.*—It has been recognised that the credit needs of the cultivator fall into two heads, the short-term and the long-term. This description is, however, not kept in mind either by the borrower or by the lender. Even in the co-operative movement this defect has crept in in some places, involving default in the payment by some societies not only of capital instalments, but of interest.

The Bengal Committee characterise existing facilities as inadequate and unsatisfactory.* According to the Bombay Committee, not one of the existing agencies possesses all the ingredients required for developing a successful system of long-term credit, *viz.*, low rate of interest, redemption by a number of small annual payments fixed on the basis of repaying capacity, and automatic expansion of resources.† A strong under-current of similar feeling runs in the reports of other Provincial Committees, most of whom have asked for the establishment of land mortgage banks in the provinces.

64. *Should land mortgage banks be co-operative?*—The Royal Commission on Agriculture have expressed themselves in favour of establishing co-operative land mortgage banks, and the recommendation of the majority is also in that direction. I have taken some pains to enquire into the extent and the manner, in which the principle of co-operative credit is to be established in the case of land mortgage banks. For one thing, there is no unlimited liability in this case and the borrowers do not, therefore, in any sense guarantee the debts of each other. The co-operation part then came in in the sense that the borrower would be also a shareholder. I have referred in paragraph 59 to the futility of attempting a combination of the function of saving and borrowing at the same time. The money for the share becomes merely a deduction from the loan. That the average cultivator in India would understand his rights and obligations in respect of a share to the extent of helping the bank and watching out for its solvency and strength, is, to my mind, an extreme expectation. The only concrete advantage, which I find in the proposal to constitute land mortgage banks on the co-operative principle, is the various concessions, which are extended to co-operative institutions in respect of remittance, stamp duty, registration and court fees, and in respect of exemption from income-tax. These are valuable privileges and I do not see, why a land mortgage bank working on the joint stock principle should be debarred from having these privileges. Nor have I yet succeeded in realising how, if the shareholders of the land mortgage bank, who would also be borrowers, were to appoint

* *Vide* Bengal Provincial Banking Committee's Report, para. 141.
† *Vide* Bombay Provincial Banking Committee's Report, para. 110.

directors, the directors could exercise business strictness in securing regularity of repayment of instalments.

I do not wish it to be understood for a moment that the co-operative institutions engaged on land mortgage work, or other work, should not have the assistance, which they are receiving now. On the contrary, it will be seen later in this chapter, that I recommend giving special facilities to the co-operative central banks to administer land mortgage funds. The trend of opinion of the foreign " experts " was against this, and it would appear that they desired the commercial banks on the one hand, and co-operative banks on the other hand, to be kept altogether apart from the business of land mortgage. It is one thing to say that these banks should not use their own funds for the purpose of land mortgage, but that they should be debarred from administering land mortgage funds placed in their hands under specific rules, would cause weakness to the business of the land mortgage, which would be shut out from taking advantage of the experience, local knowledge and superior skill, which may not be available to land mortgage organizations. The other objection against banks engaging into land mortgage business is the reaction on their credit and deposits, if a debenture issue is made by them on their assets. It will be seen how it is proposed to meet both these difficulties.

65. *How should the funds be raised?*—A new agency is being requisitioned more for the purpose of raising the funds necessary for long-term credit. It has been generally felt that these funds would have to be by way of debentures. But it is also recognised that the raising of these debentures by land mortgage banks started as a matter of private enterprise would not be easy. Provincial Committees generally have recommended that land mortgage debentures should have a guarantee of interest from Government. Some of them have recommended that the debentures should be put in the list of trustee securities. The question of guarantee would depend on the risk which Government would run by such action. If the valuation of the land at the time of the loan is done by an agency, in which the state has confidence, and if an adequate margin is kept, the only serious risk would be the fluctuation of the land value. Land values have tended to rise in all countries in the world and particularly in India, and over a long period there may be no serious apprehension of default, particularly as incoming instalments of repayment would, in the initial years, cover up any such default. A regular recovery of the equated annual payment covering interest and principal would depend upon the agency, through which these recoveries are made. If, therefore, this is tacked on to the land revenue payment, the process of regularity is ensured except in those cases, where there is a sound justification for suspending or remitting the land revenue itself. If, in addition, the repayment of the loan is guaranteed by a local Mahajan and if this guarantee is not merely a paper guarantee on trust, but in the form of concrete deposits, as indicated in paragraph 76, the risk run by the state reduces itself to very small dimensions. Considering the welfare of millions of people, which will be involved in this

scheme, and the indirect benefit to the state itself, I recommend that this risk should be run under conditions of caution indicated in this report elsewhere, and that money should be raised on the guarantee of the state, thus involving a minimum charge to be borne by the final borrower. If the guarantee is to be really effective, it has to be both for principal and for interest. If the issue is to be popular with the investor and is to pass into the hands of permanent holders, it may be essential to institute a sinking fund and to watch the market, so that, by the quantity of the issue, prices do not sag, preventing further issues except at a heavier rate of interest or at a discount.

Should there be special institutions to administer land mortgage funds.

66. The importance of making provision for long-term loans, both for redemption of old debts and for improvements having been granted, and the machinery for securing the necessary money on the cheapest and best basis having been fixed, the next question to consider is, through whom this money should reach the borrowers at minimum cost and with an assurance of sound administration. With regard to the co-operative banks, it has been suggested by the foreign "experts" and endorsed by the majority, that separate institutions of land mortgage should be set up. I regard this as a counsel of despair. A separate institution is helpful, if its turnover is large enough to justify the cost, and the position is not met by keeping the cost down to such an extent, as to have these matters fall into the hands of very small people, lacking in competence. In order to be carried out well, the work must be handled by capable people, and when this is a matter of cost, land mortgage banks could not have that amount of work year in and year out, which will justify engaging superior staff. There would be a lot of routine work, particularly with regard to the recoveries, but the judgment of the superior staff will not be requisitioned except on large and new issues, *i.e.*, not very frequently. If there is not going to be a frequent call on the time and energy of the superior staff, there does not appear to be any adequate reason that those in charge of central banks of the co-operative movement and those in charge of branches of commercial banks outside the co-operative sphere, should not be entrusted with this task. It will serve at once the purpose of economy as well as efficiency, as the charges to be borne by the land mortgage section will be a portion only of the total charges of the superior staff. The full charges of the lower staff directly engaged in the work would, of course, have to be borne. There may be also economy with regard to office rents and for office incidentals.

The arguments for entrusting this work to commercial banks and the large co-operative banks is further strengthened by the fact that the scheme of guarantors, which I am suggesting in paragraph 76, could not be carried out otherwise. The inducement

to the guarantor has got to be substantial. It is essential to arouse his confidence. He is called upon to deposit a large part of his resources on a basis, which would fix his deposits for a long period. He is called upon to accept in substitution of his present position and earnings, an income, which would add to his responsibilities and will possibly not be equal in amount to what he is making at the moment. Unless he could trust the institution, through which the scheme is being put into operation, it is not likely that his co-operation could be secured.

67. Even the foreign " experts " dimly realised the importance of securing the co-operation of the private banker, who has engaged a very large capital in agricultural districts and who has unique knowledge. Several Provincial Committees recognised that financial measures calculated to ameliorate the position of the agriculturist, would succeed better, if the co-operation of the indigenous banker and the village Mahajan were obtained. Various measures were discussed by which such co-operation could be secured. A hope came to be expressed that the moneylender would deposit his money with co-operative organizations and be content with receiving the rate from co-operative central banks on deposits, at which such institutions in their turn borrow from provincial banks. Many of these ideas appeared to be matters of pious hope. There may be no doubt regarding good results, if they could be realised, but they seemed to disregard the fundamental facts of human nature. The suggestion, which I am making, involves a combination of two ideas. It involves the land mortgage business being done through the Mahajans and in such a way that his income is reduced, if possible, only to the extent, to which his risks and costs are reduced. The other idea is that, if his own money, instead of being lent out by himself, were lent out through the co-operative institutions, it will not mean a substantial addition of available funds, whereas, in the scheme, which I propose, it is intended to build up a larger credit structure on the basis of existing cash available in the districts.

68. It is not merely of importance that the institution, which is going to administer land mortgage funds, should have the confidence of the guarantor to the extent, which will induce long-period deposit by him. The question really is, is Government guarantee, which I have made real by extending it to the principal and interest until redemption, to be made available to every new institution, which may be set up, or, must the funds raised by the use of the credit of the state be passed on to the primary producer under definite rules, but through the intermediation of large and reliable institutions. The thing would work in a vicious circle, if it is not handled properly. The willingness of the state to allow the use of its credit for this purpose, must depend not merely upon the needs of the community in agricultural districts, but also upon the assurance that the funds will be lent out on a proper basis, and that the risk of definite loss to the state involved in the operation will be reduced to an absolute minimum. In other words, it is of the

essence of the scheme, which I am putting forward, that the institution, which administers land mortgage funds, has to be very carefully chosen, and that the guarantee of such an institution would be worth something to the state. Outstanding institutions will be willing to give this guarantee, only when they realise that the scheme, which they have to administer, will bring them an income without involving them into a loss. The moneys, which would be entrusted to these institutions, would be in a definite proportion to the guarantor's deposits, which they would be able to secure, and in course of time, the amounts in any particular institution may be considerable.

69. While recommending the principle, that the state should interpose its credit for the purpose of bringing more and cheaper funds within reach of the agriculturist, I feel the strongest hesitation in allowing the use of such guarantee to small and isolated institutions, that may be set up whether inside the co-operative movement or outside. In order to be of any real use, the scheme would have to be on a sufficiently large scale, and, if that is so, the interests of the Government, who make themselves responsible for the repayment of the money to the bondholder, must be protected.

Government in their Finance Department may not be able to attend to this effectively either at the centre or in the provinces. It is therefore recommended that a department be instituted in the Reserve Bank of India, whose functions would be as follows:—

(1) To appraise the requirements and to put forward at a time suitable land mortgage bonds, guaranteed by Government as to interest and principal.

(2) To make the arrangements at all intermediate periods for the sale of these bonds to the public and to provide for purchase by the investor on instalments on a suitable basis.

(3) To distribute the amounts raised equitably between the various provinces, having regard to their needs and also to the extent to which guarantors are forthcoming in each province.

(4) To administer a sinking fund and other charges and to distribute the interest on land mortgage bonds.

(5) To deal with all agents, whether co-operative banks or commercial banks, through whom the scheme is to work.

(6) To make fundamental rules for the administration of the scheme and to see that these rules are carried out by the agents.

This is necessary in my opinion because of the importance of the subject as well as of the responsibility, which Government would undertake, and for the discharge of which, they would not have an adequate machinery departmentally. It is also essential that the accounts of the land mortgage bonds should be kept separate from ordinary government accounts and should be administered

separately, involving both safety for the taxpayer and safety for the investor. But much more than this, the reason for entrusting the work to the Reserve Bank lies in the wise discretion, which the Reserve Bank would exercise on the quantity of the issues, so as not to conflict with other public requirements and also not to embarrass the money market. There is further the supreme ground that only a bank can deal with other banks, who will carry out this programme and can fix terms neither too high nor too low for the work involved.

70. The Reserve Bank must also come in, because it is not unthinkable that the land mortgage bonds guaranteed in the manner indicated above, could be put in foreign markets. It came in evidence before us, that a very large amount of such bonds were placed abroad by Hungary. It is understood that this has also been done by Germany, Belgium and other countries. With adequate security behind them and with the guarantee of Government, there is no reason why a large chunk of them should not prove an attractive investment in other parts of the world, where money is seeking sound investment. For this purpose also the intervention of the Reserve Bank, which will be in touch with the Central Banks in other money markets, is of paramount importance, as it would give a guarantee to the foreign investor that his money does not go into the coffers of the state in India, but is being administered on business lines as an entirely separate scheme, the risks being spread over many parties with the ultimate and indisputable asset in the hands of the people.

Another important reason for entrusting the work to the Reserve Bank is, that the Reserve Bank, under my recommendation, would have the charge of all receipts from Government savings banks. They would be also responsible for the payment of interest on these deposits and certificates and for the utilisation of the funds arising therefrom in an economical manner. There does not appear any reason why some of these funds should not be invested in land mortgage bonds.

71. Several questions would arise. It may be asked, whether there should not be a land mortgage bank in each province. There is no fundamental objection to this, but, as a matter of convenience, having suggested that there should be a branch of the Reserve Bank in each province, I feel that this matter could be handled conveniently at such a branch through a land mortgage department. This will eliminate the need for raising extra capital for land mortgage banks. The need of such capital as a margin against the debentures does not arise, when the debentures have the full guarantee of Government. The work would undoubtedly be done by a separate department, and the accounts would be kept and handled separately.

The Provincial Committees have noticed the importance of proper valuation of the security for land mortgage purposes. This becomes even more serious under my scheme. Apart from valua-

tion, the improvement in the record of rights and in registration becomes also important. Improvements in the system would be stimulated by the greater interest which Government would have, and the benefit of such improvement would also be available to the public. The question, further, of costs in connection with recoveries and delays in the processes, would receive the attention, which it has failed to receive in the past in spite of many warnings. Institutions using land mortgage funds under this scheme would have to be given a prior charge and a summary process of recovery set up in their favour. The land mortgage department of the Reserve Bank would have to frame model rules and would have to deal with all exceptional cases, which do not fall in within those rules. Since, only the broad principles are dealt with in this report, it is not possible to give the details. The idea, however, is that the Reserve Bank would have to cover itself for the cost of administration, and would have to fix such rates as will leave the banking institutions chosen by it, sufficient margin to induce them to do the business. The margin to be kept in the loan to the primary producer would vary according to circumstances and may be not less than 40 per cent., and it would be on the assets behind the loans in this manner, that the redemption of the land mortgage bonds will be secured. But it may be quite feasible, and even desirable, for the intermediate institution to give, in addition, its own guarantee to the Reserve Bank to secure freedom to make its own rules with the guarantors. The minimum proportion, which the loans will bear to the deposits made by the guarantor, should, however, be laid down in each case, as well as the rate, at which the loans will be made. The choice of the institution, which will administer the land mortgage funds, would thus be with the Reserve Bank, and it is expected that, if the leaders of the co-operative movement desire, the Reserve Bank will also make use of the co-operative central banks for this purpose.

72. From the point of view of the borrower, the interest and repayment would be in a composite instalment payable in the same manner as the land revenue, but with such additional elasticity, as it may be considered desirable to introduce. Land mortgage funds, under this scheme, would not be by any means unlimited. The preference, which the intermediate institution would be, therefore, expected to exercise, would be in favour of those borrowers, who are not altogether insolvent, and who have repaying capacity. It will have to be remembered, that credit facilities are being created not to bring a larger number into debt, which does not exist now, but to give relief to those, who have existing debts at heavy rates of interest. Particular care will have to be taken to reach the benefit to those, who, while being eligible in other respects for the loan, are also able to secure substantial reduction in their paper debts. Debt conciliation, which is an important object to achieve, would have to be worked in under this scheme in order to gain the maximum benefit for the agricultural community. Obligation in this regard would have to be put, therefore, in each district on some one. It would thus be necessary to secure in this

and in several other matters, already noted, close co-operation from revenue officials.

73. In order to indicate that the scheme recommended herein is one of great magnitude and would deserve careful consideration, it may be pointed out that it is expected to run into many crores. In the 273 districts in India, if the guarantors' deposits under the scheme were only Rs. 20 lakhs in each district, it would give a total of about rupees 55 crores. It will be noticed that this is a small fraction of the total amount of money, which is estimated to have been engaged in loans to agriculturists by money-lenders and private bankers, and is by no means an extravagant expectation. Under my scheme the land mortgage debentures would be five times as much, *i.e.*, in the neighbourhood of Rs. 250 crores. There is no doubt that the operations of the scheme would have to be spread over some years, that the progress could not be uniform everywhere in India, but a substantial increase of credit, in order to bring down money rates, would have to be on something like this scale. The long-term funds brought in in this way may be expected to release for short-term financing considerable amounts now locked up. Whether the scheme will make a large progress in the next few years, or, would be hampered by difficulties of all kinds, it is premature to say. Whether the borrower would agree to the strict rules, which would be inevitable, or, would be induced to believe that they are inimical to him, would depend on the state of public opinion in the country. Whether the money-lender and the Mahajan would see in this scheme a means of destroying their ancient trade, instead of a means of general amelioration, retaining their services in a position of honour and dignity, would again depend on the lead, which is given by officials and non-officials to public opinion in this matter. Whether the financial exigency of Government permits them to issue land mortgage bonds in sufficient quantity, to effect a real improvement and in response to a real demand, is again a question for the future. There will be many scoffers at an ambitious programme of this kind, but a radical remedy is wanted for a radical evil. Cheeseparing and temporary expedients have not brought any improvement in the past and cannot be expected to bring any improvement in the future. The thing is big enough to be attempted in a big way, if the agricultural classes as a whole are to be relieved of a burden, which is removable by a proper organization of the wealth of the country, meagre as it is.

74. *Should banks lend direct to borrowers?*—The system of co-operative land mortgage banks involves direct relationship between the borrower and the bank. It is on the basis of supplanting the Mahajan.* The scheme, which I am recommending, is on the

* The amortisation of debts was in any case beyond the capacity of the financial machinery of the co-operative credit movement.—(Central Provinces Provincial Banking Committee Report, paragraphs 1471-1472.)

The Committee have great doubts whether co-operation will ever supply a complete solution by itself even after these recommendations are carried out.—(Bihar and Orissa Provincial Banking Committee Report, paragraph 243.)

basis of strengthening and supporting the Mahajan, securing his fullest co-operation under controlled conditions. The result of the existing method could be seen in the operations of the land mortgage banks reviewed by the Provincial Committees. The disadvantage would be in many directions. There would not be that spreading out of risk from the primary borrower up to the state, which lends its credit. This would reflect either on rates, or on the volume of credit, or on both. Those, who would call the programme, as set out in this chapter by me, as ambitious, would do well to remember that it involves absorption of men and money in the district and to that extent gives not only strength, but offers a smaller total task than in the case of those, who work on the basis of hostility and exclusiveness towards the local Mahajan. If India is seeking little models, which would adorn administration reports and be available for being shown off to foreign or hostile critics of Government, the old method would certainly do. But, if real and solid results have to be secured, it is along the path of adjustment and conciliation, involving constructive work from the bottom upwards and an infinite amount of hard labour for every one.

There are two sets of problems, which have to be determined. The first is the question of the initial value of land. It has been suggested in several Provincial Reports, that Government should give the assistance of a special officer for valuation purposes. Valuing land is one of the most difficult tasks and valuing it, when it is going to form the security for loan, would want not only great integrity, but great shrewdness and anticipation of the future. It is, however, a task not insuperable. The second problem is one, the solution of which is bound to offer greater difficulties. How is the money to be recovered? Is the instalment for interest and redemption of principal to be separate, or is it to be one equated instalment? Is there to be elasticity with regard to the payment of such an instalment, or is the payment to be strictly enforced? What is to be done, if the instalment is not paid regularly on due date? Who is to judge whether the borrowing party could be relied upon for such repayment and would have the ability to make such repayment? This has been the great stumbling block in the path of all agricultural banks, and so long as this is not properly considered, the experiment of land mortgage in India would not be more successful than other experiments hitherto adopted for giving succour to the cultivator. The bank may have to nurse a lot of its clients, who would fail to repay properly, or the bank may find itself compelled to exercise its rights and foreclose on the land. The Royal Commission on Agriculture say: —

"The evidence we received from Dawson's Bank showed that the authorities of that bank had also found that, once a man has obtained more favourable terms by the transfer of his debt to a less exacting institution, the tendency is for him to default in his instalments."

This is a result, the avoidance of which is essential in order to cause the minimum disturbance in the process of production. The avoidance could only be secured, if the selection of the parties taking loans is made properly.

75. In districts, where places are far apart, managers of land mortgage banks would have to work by the rule of thumb method and on the basis of valuation. They would not possess any personal knowledge of the parties. If the programme of land mortgage loans is put into execution through special land mortgage banks, I see many difficulties in the way of real progress. I would invite attention to all that the Royal Commission on Agriculture has said with regard to the Agricultural Bank of Egypt. There is the prospect of frozen loans and forfeited lands to contend with. Experience everywhere makes the danger in this direction quite real and I have earnestly searched for a means, by which this danger can be provided against.

I have also searched from the other end for a solution of the problem, by adapting to modern conditions the ancient system in India of loans through the Mahajan. It has to be adaptation, since it cannot be elimination. Apart from flagrant abuses and malpractices, against which measures are recommended elsewhere and are fully justified, the gravamen of complaint against the village Mahajan is the high rate of interest, which he charges. Can anything be done, by which the high rate can be brought down? For one thing, as the supply of credit increases in agricultural districts, there would be a gradual fall in the rate, but, if loans could be given at a controlled rate through the Mahajan, the evil of usury could be checked. The rate, at which land mortgage loans would be given by banks, would be a fixed rate, even if such loans were given through the Mahajan, and for the borrowers and for the amounts thus lent out, the rate would have come down except for underhand dealings and malpractices. There is, however, a tendency to exaggerate underhand dealings and malpractices in the relation between the moneylender and his client. These difficulties, in so far as they are inherent in human nature, would remain, whether a new system is adopted or not. They have been mentioned in connection with the Taccavi loans given by Government. They would have to be dealt with as they come.

Guarantors.

76. Pursuing this line of thought, I have come to the conclusion that the remedy lies in creating a class of guarantors from amongst the bigger Mahajans to start with*. The idea is that the bank lends out against the security of land. This security is valued by

* *Guarantors.*—Central Areas Committee suggests that gradual extinction of the indigenous banker can be averted if he were appointed "a guaranteeing agent of the Imperial Bank or a joint-stock bank."—(Recommendation No. 217, C. A.)

a government valuer and the value is checked or approved of by the guarantor. Of this value, according to rules, which will come to be framed, from 40 to 60 per cent. could be loaned against a mortgage document. The document would be between the bank and the borrower and would remain in possession of the bank. The document would provide for equated instalments covering interest and the repayment of capital. These equated instalments may be on the basis of 5-year to 20-year return as the case may be, and this would have to be determined by a careful analysis of the repaying power of the party. The arrangement between the bank and the party in this direction would have to be approved by the guarantor. The guarantor would, on his part, guarantee to the bank the repayment of the debt. Whether he should be responsible for the prompt and immediate payment of instalments not paid by the borrower, or, whether there should be elasticity about this, is a matter of detail, which would have to be worked out. There would have to be elasticity in the interests of the primary borrower, and there would have to be some room for play on the part of the guarantor, who cannot be expected to effect prompt payments of instalments. He is responsible for the final recoveries, which are covered by a solid security, but it is essential that his assistance should also be available for effecting recoveries. Whether this assistance should form part of his obligations as a guarantor, or, whether it should be secured in some other method and by some other inducement, is also a matter of detail.

Why should the guarantor undertake the risk of default by the borrower and agree to secure the repayment of the money? Why should the bank, on the other hand, have the interposition of the guarantor, who would get something out of it for himself, when they have the solid security of the borrower and if the guarantor defaulted, or failed in the meanwhile, what would the bank have against such guarantee considering that the recovery of the loan would be spread over many years?

77. The need for this combination is as much economic as psychological. For one thing, there is the money of the Mahajan at present engaged in rural loans. This money belongs to the districts. This money is earning a high rate of interest. In the operation of the land mortgage, full economic benefit would be derived in respect of those loans, which replace old debts at high rates. It is universally held everywhere, where the question of debt redemption has been examined, that prompt cash repayment would secure considerable reduction. Prompt cash repayment to the moneylenders would require moneys, which the machinery of land mortgage debentures is expected to secure. The economic consideration is that on behalf of the cultivating borrower, it is to be a large conversion operation,—conversion of the debt at a lower rate. Anything undertaken and done independently of the village Mahajan and in opposition to him, will not secure this result. On the other hand, if the Mahajan loses a source of his earning, he will throw in his full weight, which will militate against the success

of this scheme. Could anything be done, by which he could be enabled to make a sure income on his own money with considerably reduced risks to himself and with an enhancement in his position and dignity? The suggestion, therefore, is that the Mahajan should appear in the first instance as a depositor. He should put a fixed deposit for a certain sum,—a deposit, which could not be withdrawn until the loans, which he is guaranteeing, have been repaid. In respect of such deposit, he would be given a fixed rate of interest, and an attempt should be made to see that this rate is not very low. It may be as high as six per cent. In respect of this deposit, the Mahajan will have the right to be enrolled as a guarantor and to recommend loans from the land mortgage debenture funds in some multiple of his deposit, which may come to be fixed by the rules. This may be in the proportion of 1:5 to start with, but there is no reason why it cannot be more. The guarantor would scrutinise the loans, the value of the security, and would recommend them to the bank, which, on its part, would also scrutinise and in those cases where both parties agree, loans would be given, and on such loans the guarantor will be entitled to an over-riding interest or commission of one to one and a half per cent. As an illustration, if moneys could be then raised at 6 per cent. in respect of deposits of guarantors and debentures, assuming one per cent. to cover the expenses of the bank, the valuation, registration and mortgage charges, $1\frac{1}{2}$ per cent. will go to the guarantor, making it $8\frac{1}{2}$ per cent. in all. With a 1:5 ratio over his deposit, the guarantor will thus be able to make 6 *plus* $7\frac{1}{2}$ ($5\times1\frac{1}{2}$), *i.e.*, $13\frac{1}{2}$ per cent. While this figure does not by any means indicate the percentage, which the Mahajan might be making, it is still a compromise. The risks, the expenses, and the worry to the Mahajan in respect of these loans at least is considerably reduced and his energies are released for other activities, and I am persuaded that this might be an attractive thing. The bank gets the benefit of local knowledge and that selection of the borrower, having regard to his character and repaying power, at the hands of a shrewd local party, which no bank manager can bring to bear upon this subject. Such procedure is calculated to disarm the opposition. It ensures popularity for the scheme through the co-operation of all parties. It would do genuine good to the borrower by enabling him to economise over interest charges. Economically there is everything to recommend in this programme. But from the psychological point of view, it will mean the first attempt to bring the Mahajan in a definite link with the central money market. It will mean recognising his position in the district and strengthening his position, so that he still remains the respected man amongst his fellows, instead of being dislodged. For the cultivator, it means the hopefulness and prospect of removing the overload of debt relating to long-period. If it is the policy of the bank that foreclosures have to be avoided and the borrower's position should not be allowed to get worse, the Mahajan can help in this matter, as, apart from the initial selection, he can also exert much moral pressure against the cultivator getting into serious debt

outside. It will clear the atmosphere and it will put to the credit of the state a genuine measure for the welfare of those agriculturists, who are outside the field of the co-operative movement for any reason.

78. The proportion of loan, which the guarantor would be allowed to recommend and to guarantee, would depend on the method, by which the land is valued. If it is a conservative valuation and allowance has been made for possible loss, there would be two alternatives to consider. A larger margin can be kept, *viz.*, 60 per cent., or a smller margin can be kept, *viz.*, 40 per cent. The issue of the margin is of real importance in the beginning only, because as some instalments get paid, the margin automatically increases. Historically, values of land have risen and if the trend of affairs is such as to lead to a rise of land values, the smaller margin is recommended, instead of the bigger one. From the point of view of the bank, the deposit of the guarantor is itself the margin. Here again the percentage of such deposit to total outstandings would begin to diminish as loans begin to be given out, until the maximum proportion fixed by rules is reached. But with the passage of two or three years, the deposit amounts remaining fixed, such percentage would begin to rise. Whether the guarantor should be allowed to increase his loans to the extent to which recoveries keep coming in, is a matter of policy, on which no advice can be given at the present stage. Unless he is so allowed, the return expected by him on his deposit could not be maintained. It may be, however, possible to increase the proportion of 1:5 in the light of experience, if it is reported that there are no serious abuses. Where the loans have been made on the basis of automatic extinctions by annual instalments, the danger of total loss to the bank is reduced to a minimum. That such loss would not amount to anything like 20 per cent. indicated in the proportion of 1:5, is quite obvious. But the decision on this question must depend on the demand for loans from borrowers on the one hand and on the supply of available money, which can be put into this direction on the other hand. If the scheme is put into operation with the fullest co-operation of local officials and non-officials and with those essential changes in law and procedure, which would tend to render the security of the bank complete and the costs of the mortgage as low as possible, and reduce to a minimum the cost of recoveries, I would expect that land mortgage transactions in the districts would come to be made more and more on this basis. It would further release some funds, which are at present engaged in such transactions and direct these funds towards short-period finance. The demand for these loans is not likely to be small and may exceed the ratio of 1:5 of the guarantors' deposits, which may be forthcoming. There is a very definite limit to such deposits, but it is not unlikely that some moneys, which are at present coming out of the districts for investment at the centre, may be retained in the districts by the temptation offered by the scheme. After all a capitalist would have to find a few

reliable cultivators, who are anxious to borrow, and he would have to keep watch on them in order to secure enrolment as a guarantor and earn on his money the high rate, which the guarantor would secure.* There will be many variations in practice in different provinces, and there will be many adjustments required, as the scheme makes progress, varying according to the peculiar conditions of the different localities. The banks, through whom this work will be done, will also have valuable constructive suggestions to make from time to time, and it may be expected that a body of experience will grow up, which will enable the scheme to be put on a sounder basis than when it starts. The merit of the scheme in my mind is that it does not involve any obvious or serious economic handicaps, and it secures for public funds the utmost amount of safety.

CONDITIONS REQUISITE FOR SUCCESS OF LAND MORTGAGE.

79. In order that the scheme should succeed, various alterations will have to be made in the Revenue Code, in the Record of Rights, and in laws relating to the transfer of land and holding. Special privilege would have to be given to the banks handling this subject in the matter of recoveries. The charges in the matter of law would have to be eliminated. The government officials will have to co-operate. They would have to realise that it is the primary object of the state to secure the welfare of the agriculturists, and that a scheme of this kind should not only be well received in official quarters, but actively encouraged. Difficulties unforeseen at the moment, but arising from routine rules and procedure, both in revenue and in civil courts, would have to be overcome, and this could not be done without energetic goodwill towards the programme, which has to be initiated right from the top.

If the scheme, after proper consideration, is rejected by the legislature, because of any inherent weakness in it, and some other alternative capable of accomplishing the same object is substituted, there would be nothing to say, but it would be disastrous, if a few things out of a composite scheme of this character are picked out and if the results are judged by the success or failure of these loose and isolated experiments. It would be better for the *whole* scheme being introduced in one district in each province instead of a few ideas applied to the whole province.

80. Long-term loans on land mortgage can only be given where the borrower has a clear right in the land. In provinces, where there is a ryotwari tenure, there will be no difficulty, but elsewhere the benefits, which are aimed from the means suggested, would not be secured. The Central Provinces Committee recognise this and say: "The fact that the existing law with regard to occupancy tenancy land gives the money-lending malguzar dangerously wide scope for getting possession of the land of tenant borrowers if he

* If more money is offered by guarantors deposits, the rate of deposit or the rate of overriding could be reduced. Adjustments of all rates would be made in the light of experience and response to the scheme.

desires to do so constitutes one more reason why facilities should be created with the least possible delay to enable tenants to acquire full rights in their land." The agriculturist must have a real property interest, which he can mortgage and not merely a tenancy either at will or under other precarious conditions.

81. Similarly where the right of the agriculturist is real, but where there are artificial restraints to the transfer as in the Punjab, the benefit would not accrue. Even if the banks were excluded from the operations of the Punjab Land Alienation Act, were allowed and encouraged to lend out under the scheme through the guarantor, and were authorised in cases of serious default to foreclose and deal with the lands, subject only to the restriction that lands could be sold to agriculturists, the value of the security would be less, for restriction reduces the value and makes the security less attractive from the point of view of the lender. When these restrictions come to be conceived in the interests of the agriculturists, the position of those, who are suggesting remedies in the interests of the agriculturists, becomes very difficult. I am opposed to most of these laws as being objectionable in principle to the free mobility of capital assets, which in its turn must prevent free mobility of money capital. It is impossible to reach any other conclusion on general grounds.

With regard to Bengal, which has a permanent settlement, the benefit from the scheme of land mortgage bank cannot be secured. This is neither the time nor the place to say anything about the permanent settlement, but it is for the people of Bengal to judge whether it has done them any good. I am not advocating a sudden serious change, which will deprive the land owners of what they are getting and bring more money to Government revenue. I am anxious to secure to the actual cultivator definite rights in the land, which he is cultivating, rights which are capable of being sold, and which have a capital value and a market. It is only where an asset in real property is created that the benefit by way of mortgage debt can be realised. This may not be possible without a radical change. It is recommended that this matter should be examined particularly with regard to the phenomenon of intermediate capitalisation.* Can more money be introduced in the rural districts of Bengal with absolute safety through the zemindars? Can the money rates be brought down all round, so that the benefit will reach the actual cultivator in some other way than by the method of land mortgage? In order to answer these questions, much more information than is available will have to be secured.

The Economic Doctrine of Diffusion.

82. In adopting measures to secure a reduction in the rate of interest all round, reliance will have to be placed on the economic doctrine of diffusion. Unconsciously this has been used with

*In view of this, the action of the Reserve Bank in helping and guiding the loan companies of Bengal becomes even more imperative.

reference to the claim that the co-operative movement has brought down rates of interest in the agricultural districts. The co-operative movement has given loans only to its members in limited quantity. Yet the appearance of a rival agency and the mention of cheap rates has had, it is claimed, a salutary effect on money rates all round. Another illustration of this doctrine is with regard to the claim of the Imperial Bank that the extension of its branches has brought down the rates for internal remittance. The creation of facilities for one class reacts on the whole field. It was the effect of diffusion which tended to raise prices in many countries when the currencies of some of the countries were disorganised, and there was an excessive issue of inconvertible paper. Valuation all round was effected more or less because of action taken in certain places. The bonds of economic life inside the administrative and geographical borders of the country are very much closer, and no action taken in one part of the country can be without its reaction in other part. A flood disaster in Madras or Bengal might apparently have nothing to do with Bombay, but it will affect Bombay through a thousand invisible causes. When the action taken, however, is in the locality itself, I expect the effect of the doctrine of diffusion to be much more direct and palpable. A new and additional shop cannot be opened in the shopping quarters of a city without the trade getting to know about it and to watch it carefully, particularly, when the article supplied is good and the price is very much lower than the ruling price in the existing shops. Even if the privilege of purchase in this shop is distributed carefully with discrimination and by tickets, the effect on the price cannot be avoided for long. Prices may not tumble down to the new level at once, but there would be a check to their upward movement. The more conservative and cautious shopkeepers will adjust their prices as far as they can within their means. They will try, in the first instance, to run down the new shop and to run down its wares. The process of this intolerant running down is itself a process of adjustment. Where an option is given to one of these shopkeepers to acquire his stock from the same source as the new shop and to sell on the same basis as the new shop, consistent with his profit, the temptation would be great and sooner or later it would be availed of. If such a process is hedged round with regulations, it may be evaded, if the shop-man can continue to get a higher price by staying out. The doctrine of diffusion thus works through invisible ties and through the trait of human nature, which emulates, even while it condemns a rival. Economic adjustment comes through the formation of opinion, which again comes through reliable and definite information as to where one stands. In the matter of the scheme of the guarantors, which I have formulated, I proceed on the basis that example is better than precept. The Indian Mahajan or Sowcar is probably amongst the shrewdest of all classes in India, but even he would resent being preached at. An illustration that things can be done better in the future than they have been done in the past would be more useful. The main idea is then to rely on increased supply

of credit on a certain basis and to expect that the reaction of the new system on the larger old system would be big enough to have a beneficial effect in keeping general interest rates down.

The scheme envisages raising of funds on the cheapest basis possible. The laws of money and credit involve the lowest rate for the best security. The state would lend its credit, because there would be a definite and ascertained value in the assets, which would cover the loan. The increase in the volume of credit by this means would tend to bring down rates. The adjustment would, however, be with local machinery with the least disturbance and smoothly. Moneylenders would still be there, including the agriculturist moneylender, but they would be reconciled to the change. It is in human nature easier to accept loss through fluctuation in price, than through a direct deprivation. Where persuasion and preaching fail, competitive offers at a lower rate would have signal and instantaneous effect. The diffusion would take place not merely regionally, but with regard to short-term and all other money contracts, including, it is hoped, loans in kind.

Contrast the latest co-operative figures of land mortgage banks:—

Number of banks	66
Membership (Bengal's figure not available) . .	12,043
	Rs.
Working capital	49,64,000
Average of—	
Working capital per each bank	75,210
Working capital per each member	356

CHAPTER VII.

MARKETING: WAREHOUSES: POOLS.

83. In dealing with the economic position of the cultivator, an indication was already given of financial weakness and of his disabilities in connection with the disposal of his produce, arising through such weakness. Money economy has been established everywhere in India, and there has been a growth of commercial crops, amongst which must be included food crops, that are too valuable from the point of view of the cultivator for his own consumption. A cultivator may be efficient as an agriculturist, but would suffer, if he is lacking in the art of disposal of his produce, or in safeguarding the money, which comes to him, or, again, in spending it on the different articles, which he needs. His isolation from modern economic conditions has inflicted on him a disability, which time and the process of education and the increase of communication, by which he is enabled to know and understand what is going on in the world, would help. In the meanwhile the question is asked, whether anything could be done to help him.

I agree with the need for orderly marketing. The inability of the farmer to sell as and when he likes, and the compulsion from his own economic position to sell off earlier than he would like, or at a moment when everybody else also is equally obliged to sell, when the market is depressed, are evil features of the present organization. But the factors affecting this are many. There is the question of revenue collection at a certain time. There is also the question of the needs of the farmer himself and the fact, that in most cases he is a borrower. There is also the fact, that often the party interested in the sale is his creditor and that he is also the purchaser, who, with his larger holding power, gets the produce cheaper, holds it on, and sells in an improved market. There is further the fact, that the small dealer, who is the buyer from the farmer, has a limited holding power himself. He has limited storage accommodation and he has no means of raising regular or large credits, either on his own name or on his stock. This must react on the farmer also.

84. It is given out in the Provincial Committees' reports, that in some places in India, the cultivator takes crop loans, and one of the conditions of such loans is, that the disposal of the produce takes place either through, or, by the creditor, sometimes even at scheduled rates, or at rates much lower than could have been secured by the cultivator himself, had he been financially independent. The cultivator loses because of his inability to hold out. His needs coincide with the needs of fellow cultivators, and there is the spectacle of more sellers than buyers at particular times, when the bulk of the produce gets out of the hands of cultivators into the hands of the traders. If he is enabled, by borrowed money, to wait for a better market, he has to pay high rates and several other charges.

The difficulties of the agricultural producer also exist in other directions. It is a mere truism to say, that, where a commodity is dealt with in the wholesale market, which in its turn is influenced by the world market of such commodity, the price, which the primary producer can receive, is the wholesale price less charges. The word "charges" covers a multitude of sins, but can after some controversy be fixed in any particular case. Does the agriculturist producer receive the price, when he sells his commodity, which answers this test? In other words, does he receive a competitive price? The competition in the wholesale market is assumed to be fairly keen. Is this competition brought to his door, or is there any modification thereof? There was evidence in the Provincial Committees' Reports, that in many places the purchase price of the day was fixed in the interior markets secretly amongst the buying agents and local traders. At many places the local traders play a subordinate part to the buying agents of the wholesale firms. These buying agents have been known in some places to make their purchases by turn and to oblige each other by not bidding against one another. In other words, they purchase at a price, if the cultivator is willing to sell it. Competition is thus considerably modified. In still other places, the most important buyer dictates what the market has to do, and his agent generally gets others to accept those conditions. The Madras Committee specifically pointed out the disabilities of the sellers of tobacco and their difficulties in the face of a monopolistic buyer. Not only is the agricultural producer thus unable to receive full competitive price, but is penalised in the matter of weight and other charges arising out of delay. He is subjected to hardships, some of which are avoidable. Divested of technical details and discussions with regard to varying practices in different staple commodities in different parts of the country, the fundamental economic question is, does the cultivator receive the full fruits of his labour, or, by various causes and through various agencies, is he made to pay heavy discounts? That the cultivator's position is extremely weak as a class has been admitted and strikes every observer. His weakness in this direction, it should be also recognised, would eat up and absorb every additional benefit that he might receive. Intensive cultivation would have to be resorted to in India on economic grounds before long, in order to maintain the cultivator even in his present poor standard, and in order to produce more to feed the increased number, who have to depend on the land, in the absence of other suitable outlets. But, if the value of the larger production does not reach the cultivator through any cause, his condition cannot improve. If the factors, which lead to his financial weakness in disposing of his produce, were to be intensified, the hope of improving the condition of the agriculturist would have to be abandoned. The problem, therefore, is of the greatest importance.

85. The majority Committee rightly dwell on the fact, that there are many points to be considered in connection with orderly marketing. Their conclusion is: "The essential and ordinary functions

of marketing according to the preliminary report of the International Institute of Agriculture and other writers on Agricultural economics are:—

(1) Collection and assembly.
(2) Transportation.
(3) Wholesale distribution.
(4) Retailing.
(5) Risk-bearing.
(6) Financing in all stages.

"We as a Banking Committee are concerned only with one aspect of the subject, *viz.*, finance, in making our recommendations. But we cannot deal with the question in a satisfactory manner without expressing our views on the other factors which promote orderly and profitable marketing of agricultural produce. Without attempting a detailed examination of these factors we express our concurrence with the following recommendations of the Royal Commission on Agriculture in India and the Provincial Committees for improving and organising the agricultural marketing:—

(1) Improvement of transport facilities including rural communications. We must not be understood to mean that we recommend an indiscriminate substitution of bullock carts by lorries.
(2) Lowering of railway freight rates and grant of other railway facilities.
(3) Establishment of regulated markets under Provincial Legislation.
(4) Standardisation of weights and measures.
(5) Adoption of measures to secure improved quality of produce by organisations amongst buyers and traders.
(6) Promotion of co-operative sale societies and other suitable organisations for purposes of sale.
(7) Holding of auction sales by agricultural departments to secure increased price to the cultivators who produce improved varieties. We advocate that the Government should not make any profit for themselves from such sales.
(8) Carrying out of market surveys.
(9) Appointment of expert marketing officers on the staff of the Agricultural Department."

While I agree with the Royal Commission on Agriculture and the Provincial Committees and the majority, that these measures are calculated to help the agriculturists generally, I feel that it is necessary to analyse the problem a little more closely. There are technical matters in connection with the organisation of marketing, which need attention. Markets should be organised with reference to the convenience of the sellers, and not buyers. In the case of agricultural produce, the sellers are many, and they are the active

section of the community. They are also comparatively backward and in a position of financial weakness, and they deserve the greatest measure of protection which the State can give.

In order to improve the condition generally, more information is required, much more than is possessed at present. Such information, when it is collected, would have to be properly examined. Protective measures of all description would emanate from such examination, and it should be the business of some responsible minister in every province to see that everything, that can be done, is done. Permissive legislation would have to be on the statute book to avoid delays, and co-operation of various sections of the population concerned with the better organisation of market would have to be secured.

86. The proposals to have marketing officers and to have surveys of markets, which have emanated from the discussion of the Committee, deserve support, but also deserve a warning. The creation of new administrative posts is, in the machinery of the state, like a comfortable walk along gently sloping road, but the utilisation of these posts for the purposes, for which they were created, and scrapping them, if they do not serve these purposes, is an uphill task. The mere existence of a marketing officer cannot do any good, unless there is a well defined policy, the ends of which such an officer could secure within the field, which is entrusted to him. What is it that the state wants to be done with regard to the cultivator? Is it that the cultivator should get the whole of the fruit of his exertion? Is it that he should be free from the moneylenders and those who finance him for his crops? Is it that the middleman trader, who purchases his produce, is to be eliminated and the cultivator by himself, or in association with other cultivators through a common organisation, is to reach the final purchaser in the principal markets? Is it that in the principal markets, some check is to be put on the wholesale buyers and exporters, who have the advantage of the present situation and try to rig the market for their own benefit, who, when they intend to buy and, being ultimate buyers, yet hammer the market at crucial periods in order to depress the wholesale price and in order to bring down the price, which the cultivator receives at the interior markets? From the point of view of the small men, there are many evils and, unless the intention of the state has been made clear as to which of these evils and to what extent they would desire to cure, the task of the marketing officer and the marketing boards would become difficult. It is a commonplace in the life of social organization that when a new machinery is created, the strongest take advantage of it and turn it to their use. They are prepared with the information, before the machinery comes into existence. They understand its full economic effects. They are quick to adjust, and they have the will and the power to adjust. The poor are left behind. There would be no justification in interfering with the field of marketing as it is, in spite of its many defects, or for incurring expenditure from public funds, unless the objects were clearly defined.

The problem, therefore, is a complex one and could not be solved by any simple methods. The scheme of the Committee is that there should be an economic survey in each province and that, as a result of these surveys, marketing officers should be appointed in each province, that licensing boards should be set up for licensing warehouses, that the warehouses should be set up, that arrangements should be made with banks including the Reserve Bank to accept the warrant from these warehouses and that at such warehouses grading and pooling should be tried. It, therefore, means that skilled and reliable grading officers have also to be found and employed at public expense.

87. This is an ambitious scheme and it would cost a lot of money, and should it go wrong, it would be fatal to the taxpayer, whose money would be spent. I wish some enterprising economist will make a calculation of the amounts spent on departments of agriculture, in the provinces and at the centre, on the Directors and Ministers of Agriculture, on their tours, on agricultural education, surveys, enquiries, commissions, research, foreign deputations, experimental farms, demonstrations, exhibitions, fairs, etc., and will then assess the benefits derived from such expenditure. I am sure the desire to spend money in the name of, and for alleged benefits to, the cultivator will in this event be severely checked. The arrangement of things in this country has been called primitive. A primitive country must be primitive. Elaborate arrangements through a staff of officials is good in countries, where the state can afford it, and also where the literacy of the people enables the officials to disseminate information and to secure their willing co-operation.

I utter this warning because of India's poverty, since I find that, in the United Kingdom, by contrast amongst the richest country in the world, efforts are being made in the same direction, and the position of the cultivator has been summed up by Dr. Addison, Minister for Agriculture, as follows:—

"A system that would develop a sound, self-supporting agriculture had to be provided.

"Agriculture was the only great industry in the country where the producer was helpless. It was noteworthy that this industry, which produced £250,000,000 worth of foodstuffs every year, and could produce half as much more, was the only big industry where the producer had not the slightest idea of the amount his produce would realise.

"There were thousands of hard-working producers in the agricultural industry, marketing their goods as best they could.

"The Labour Party said that if they were to obtain a fair price there must be an organisation skilled in marketing, which would market their goods for them and secure for them as full and adequate a return as they could possibly get."*

* "Hindustan Times," 11th April 1931, from the letter of its London Correspondent.

The problem thus exists elsewhere, where expensive experiments could be made, because the state can afford it. If parallel organisation in India is set up merely in imitation on the English model, the results may not be satisfactory.

88. It has been rightly recognised that the improvement must be sought from the general improvement in the condition of the cultivator, in his enlightenment and mental equipment, in the promotion of the spirit of self-help in him and in encouraging him in seeking co-operation of his fellows. Such co-operation can be broadbased only on the strength of opinion, and such opinion can only arise when the cultivator understands his plight, reasons leading to it, the means of improving it and the importance of joining hands with others.

In the meanwhile technical details with regard to marketing, particularly in those directions, where it is the function of the state, must be attended to. The foremost amongst these is the standardisation of weights and measures. The failure of the state to secure uniformity of weights and measures in India is inexcusable. It is not that the government policy is one of non-interference in economic revolution. That its action should have been slow with regard- thousand miles of railways, the introduction of money economy and the development of commercial crops, of import and export trade, and in many other directions, can be seen bringing about an economic revolution. That its action should have been slow with regard to weights and measures, I have never been able to understand. The discussions on this subject, which have been long and sporadic, bring up the consideration of the subject before the various Provincial Governments and before the Government of India. It is high time, that drastic action should be taken in this primary obligation of the state, before any elaborate schemes in the interests of the cultivator are taken in hand.

The existence of a large variety of weights and measures cannot benefit those who are economically or financially weak. Since disabilities of the agricultural producer have been admitted all round, it stands to reason that he is the sufferer. Similarly, on the other side, the retail buyer and the consumer is the sufferer. It is not possible that the middleman trader could suffer for long and yet carry on his trade. He knows where he is, no matter what the standards are, and he comes out on the right side. He, through his associations, might even oppose standardisation, though it is fortunate that organised commercial opinion in India has always been in favour of standardisation. The community as a whole, therefore, does not benefit. Nor does the state profit by the continuance of this state of affairs.

I am very doubtful with regard to the utility of the proposal of standardisation inside a province. The province is a political unit, and, as such, must be considered in many respects, particularly with regard to the enforcement of any measures of standardisation in practice. But, the province does not always reflect the economic unit. Markets have over-run provinces. The

cotton market of Bombay has dealings in the product of four or five provinces. If there is going to be a change in any province towards standardisation, it is not, that, the smaller the change, the better. The choice is between change or no change. Once the policy of change involving standardisation has been accepted by the state, it is necessary that the change should be made not by stages, but once for all. It is necessary, therefore, that the standardisation should be on the basis of all-India. That should be the goal. As there are disadvantages in reaching that goal by several stages, attempt should be made to introduce uniformity all round. There would have to be considerable prior activity on the part of the state in order to carry through this change. This activity would have to be undertaken for once, and if the work is to be done well, a special organization would have to be created on the model of the census organisation. It is not possible that the difficulties should persist for long. The primary thing is the dissemination of the information as to the change and to prevent fraudulent middlemen from taking advantage of the ignorance of men, who have to deal with them. Special offences would have to be created in the legislative measures introducing uniformity, in order to prevent abuse and in order to get the change-over brought about smoothly. This is a technical measure in which the individual cultivator is helpless. The state alone can act and the primary cultivator is entitled to this protection, which is long overdue.

The cultivator also suffers, in so far as he seldom receives adequate increase in price, when he produces material of good quality. The market is levelled down to the common quality and the incentive to the production of better quality is destroyed. But, on the contrary, the slightest excuse is good enough for the buyer to raise difficulties about the quality, which the agriculturist is offering, whenever he can raise the question.

In the other measures mentioned by the majority Committee, the improvement of transport and a definite policy in the matter of the railway rates have already been included elsewhere as part of a larger measure of agricultural policy.

89. In principle, the co-operative sales societies are calculated to help the cultivator over many of the difficulties, which he is experiencing in marketing. There are greater chances for the success of the cultivator accepting the co-operative principle in this direction, than in the direction of co-operative credit, but experience in several provinces has not been satisfactory. This is because, the co-operative sales society must command a sufficient turnover in a market, before it can influence the market. A sufficient turnover is also required to keep down the expenses. The manager, who would have to be honest, and in whom the members would have to have confidence, must possess business ability and skill, not dissimilar to that, which the smaller trader can bring to bear. The work of the co-operative sale society must be continuous year after year, and there should be no uncertainties about its operations. Its relations with the local small traders

should be friendly in order to ensure its success. Lastly, it should have adequate and proper finance. I do not desire to discourage in any way an effort in the direction of organising co-operative sale societies, but economically the position, which the co-operative sale society would have to contend against, is the same as the position of the local small trader, and much useful light might be derived by studying that position. The local small trader, who took the produce from the agriculturist, and who sent it to the principal internal markets for sale through the commission agent, finds himself in difficulties now. He has often no connection with, or, access to, the Imperial and other large banks. He has to contend against the competition of more powerful parties, better equipped with finance and with buying orders in their pocket. These parties are helped with cash credit and actually bring cash down with them, whereas the mechanism, by which the small trader put himself in funds, was the hundi on his commission agent at the market. The conflict between the old and the new system has thus been carried on right in the heart of the country, and the small trader has had the worst of it. The hundi as an instrument has been ousted in a large measure. People, whose purchasing capacity in the agricultural districts appears to be unlimited, have come on the scene, and they have dominated the situation. It is undoubtedly going to be very difficult to put back the hands of the clock, but, if it is difficult for the small trader to hold his own, it could not be easy for a co-operative sale society composed of primary producers.

90. The purchase is taking place on the strength of unlimited cash credits secured at the centre. Firms like Ralli have a system of their own. It is unfortunate, that no particulars of the operations of such firms were brought before our Committee. The Japanese, who were recipients of Indian cotton manufacture at one time, are now sending cloth to India, and for this cloth they purchase Indian cotton. They have eliminated the Indian middlemen between, and their purchases now take place right in the interior. These purchases are financed by Japanese banks, generally through a cash credit, which they have arranged with the Imperial Bank. They are financed, therefore, with Indian money, but to the disadvantage of both, of the Indian producer and of the Indian trader. Large jute firms and large cotton firms are similarly assisted to reach right to the interior. Purchase and sale is an economic relationship, but there is an under-current of conflict between the purchaser and the seller, and in such conflict the Indian producer stands at a terrible disadvantage. This disadvantage could be removed, if the local trader was strengthened. The local trader is also powerful compared to the individual farmer, but there may be many of them on the scene, and the principle of competition may operate more than it does, and in any case he is not as powerful as the buying agent of large foreign firms. I am not convinced, whether the programme of marketing organization, which is being projected, will bring about this result or not. One of the proposals is, that the markets should be

established in the interior, where they do not exist. This will certainly be a step in the right direction. Warehousing costs and middlemen's and various other charges are bound to be less in an interior market than at the central market. Whether the establishment of markets in the interior will assist the small Indian trader, who has lost ground, is a question, which far overruns the limits of this enquiry, but it is a question, which I should like to raise for close examination before elaborate schemes are sanctioned.

The proposal for setting up a Lincensing Board, which will license warehouses in various places and make rules, under which such warehouses will operate, is one, to which I have no objection, provided it can be done at a very limited cost.

91. Warehouses are necessary in the districts. Whether they will assist the primary producer is, to my mind, extremely doubtful, but they will assist parties dealing in agricultural produce in the interior to hold on for a better market. They would enable less to be thrown on the market in the beginning of the season, and the withholding of some of the stock would prevent prices from sagging, as they now do. Stabilisation of prices and less fluctuation would be a good thing for all parties concerned, and would have a favourable reaction on the agriculturist himself.

The other important consideration in the case of staple commodities is central markets, and the organization of these central markets and their rules. It would be beside the purpose, at this place, to examine how far these central markets, where forward sales can take place, are utilised by foreign interests, who are purchasers in this country, to depress the market so as to enable their purchases in the interior to be made on the basis of a lower market price. Indian interests in such cases are all sellers, and if the balancing force of the buyer is removed and the buyer can artificially assume the position of the seller, the support to the market is gone. Less visible stock at the centre by means of warehouses in the interior, which will hold stocks, would therefore help.

The position of the warehouses should, however, be considered on economic grounds. No warehouses can come into existence, unless the commodities could bear the costs involved. The costs involved would depend on the period of warehousing and also on the season, it being doubtful whether the warehouse could be used all the year round. It would be necessary to create a definite set of rules in respect of warehouses with regard to the responsibility of the warehouse company, with regard to insurance, with regard to the method of collecting the warehouse charges, with regard to the nature of the warrants, which would be issued, the method, by which the banks would make advances against such warrants and by which they would recover the advances made by re-indorsement of the warehouses receipts, when their debt is discharged enabling the warehouses to give delivery.

We had not these data before us. Another question that was discussed by us, was, who should erect the warehouses. It was suggested, that the state should make advances for the erection of warehouses by co-operative societies. It was also suggested, that the railways should engage capital in this business, as it would have the incidental advantage of cheaper handling charges, by involving only one removal from the goods shed or to the goods shed, instead of several removals from one merchant to another. It was also suggested that the joint stock banks getting their licenses from the Licensing Board, should engage in this business. The whole question of the working of these warehouses which must cover the costs and secure adequate profit, is a matter, which would require to be experimented upon. That the trade will benefit therefrom as well as the producer, who comes behind the trade, need not be doubted, but, which set of present charges would be reduced, and whether the additional charges for warehousing could be borne, *i.e.*, could be compensated for by the rise in the price, or any other advantages, is a matter, which will need closer examination in future with reference to each individual locality and each individual commodity.

Warehousing is an economic necessity, and those, who use the warehouses, should be prepared to pay for them, and their willingness and capacity to pay should be carefully examined before such warehouses are set up. The advancing of funds by the state cannot be justified except in an experimental and pioneer stage. Railways, doing this work and engaging public funds on them, would not be justified, because it will take them outside their normal function as carriers. Their handling of activities entrusted to them, such as railway workshops, railway coal mines, &c., has not been such, as to excite confidence in their ability to help in this direction by capital expenditure of their own devoted to warehouses. The co-operation of railways should, however, be secured for leasing out lands within the railway areas and near the station, wherever available, and for transport and handling of goods to and from the warehouse.

92. The question of grading of agricultural produce arises in connection with warehouses. It has been suggested, that grading should be assisted by the state through properly selected officials, who would be employees of the Licensing Boards. I am not in favour of incurring expenditure of public funds in these directions, except where it is to help in an experiment and to establish a model. On the possibility of pooling the produce by the co-operative sales societies, or on a commercial basis in the warehouse, the Provincial Committees are very diffident. If the produce were pooled, the power of the seller increases enormously as against the buyer. In India, the reverse process is taking place, *viz.*, that the buyers are larger firms than they were before, and fewer of them at many centres. The pooling of agricultural produce for purposes of sale on a larger scale would more easily eliminate the middleman than the small co-operative devices, which are sought to be established in this country. A pool can have its

own machinery and can appear in the central market as and when it likes. It can stay away from the market and actually influence it, if it is very large. The chances of a pool being established in India in connection with any commodity for any district are small. If it is a business organisation on a voluntary basis and involving many participants, it cannot be expected to emerge. A pool would have, therefore, to be established from the top with, and under, the authority of the state. It would be an experiment in socialism, the success of which will depend on many factors. It will depend on the wisdom of the officials of the pool and on their honesty as well as their competence. The jute corporation, which was suggested by the foreign " experts " with a view to stabilise prices and regulate production, belongs in my opinion to this category. It is deserving of examination, because the best minds of this country were also groping for a solution in this direction. Mr. C. R. Das had a scheme prepared on these lines and had discussed it with me in 1924. He was obliged to abandon it, when I pointed out, that before the scheme could operate, it would be necessary to secure legislative sanction behind it, and it would be necessary to provide against combination of foreign interests, both as buyers of jute for local consumption and as shippers helped by foreign banks.

If a pool is to be established in India under the guidance of the state, which would deal primarily with selling, but would also have something to say about the quantity produced and the area engaged in such production, jute, which is India's monopoly, probably offers the very best field. For reasons, which have to be investigated, the jute producers seem to be economically in a weaker position than any other producer in India. Every other commodity rose in value during and immediately after the war and derived the benefit of the boom, except jute. This is due to the very strong position of the buyer and correspondingly weak position of the seller. It is, however, not possible within the compass of this report to frame a scheme of a pool applicable to jute in all its details, and indeed, it would be useless to do so, until the policy behind such pool is carefully defined and is accepted by the state.

CHAPTER VIII.

THE CO-OPERATIVE MOVEMENT IN INDIA.

93. The progress of the co-operative movement in various provinces has been reviewed by the Provincial Banking Committees, and there does not appear to be much in their recommendations on this subject, to which the Central Banking Committee can add. The angle, from which the position of the co-operative movement needs to be examined here, appears to be the place of this movement as a financing agency for rural credit, possibilities of extending its usefulness as a nucleus of thrift institutions in the country, and the relation of the movement with other agencies.

The co-operative movement has been now in the field for over twenty-five years. It has made progress, over which satisfaction has been expressed in some quarters and dissatisfaction in others. It has been assisted from the top. There has been a proper official machinery for the advancement and regulation of the movement. The annual expenditure incurred by Government on the movement in various provinces has been as follows:—

Statement of expenditure on the working of the Co-operative Credit Departments in some of the provinces.

	1928-29. Rs.	
Bombay	5,55,000	
Punjab	10,93,000	
Ajmer	38,700	
Central Provinces	2,77,778	(net cost to Government.)
Madras	8,89,000	

In the other provinces, particulars are not available in the Annual Report of the Working of the Co-operative Movement.

94. The progress of the movement had been reviewed by the MacLagan Committee in 1915, and various recommendations for improvement were made. It has further been examined by the King Committee in Central Provinces, the Oakden Committee in United Provinces, the Townsend Committee in Madras, and the Calvert Committee in Burma. Other credit agencies came before our Committee without any previous survey. In many cases even after the Provincial Enquiries, wide gaps remain to be filled up in the information, which is available about other credit agencies, but in the case of the co-operative movement there is very little, which is not definitely known for those, who take interest in it. Its machinery

is ready, and the experience of so many years has now disclosed the elements of strength as well as weakness in the movement.*

The working of the movement is also reviewed by the Agricultural Commission. A Provincial Report is published every year. Registrars of Co-operative Societies meet. There are co-operative conferences. There are co-operative institutes and there are journals. Many non-officials are, in some capacity or the other, associated with the movement, and if the movement suffers, it is not for lack of publicity or patronage.

The progress of the movement has been greatest in the Punjab, Madras and Bombay coming thereafter. There may be many explanations for the phenomenon, that it has not thrived equally in other provinces.

Beyond what has been said in the Provincial Committees' reports, there is very little of importance relating to its internal structure and correlation of its various parts to each other, which the Central Banking Committee can usefully indicate.

The Royal Commission on Agriculture, and all recognised official opinion, look for solving the problem of rural finance in the extension of the co-operative movement. Bringing cheap money to the door of the borrower and increasing the volume of credit available, are fundamentally sound maxims. If the co-operative movement by itself can achieve the result of relieving the agriculturist from his debt, which is being borne at a heavy rate, and of securing for him all the finance, which he would need, the search for other measures would be rendered futile. Without decrying the good work of the co-operative movement as far as it has gone, it is necessary to point out, where and how far, it falls short of the actual requirements.

95. The question to ask would be: can the co-operative movement ever replace all other agencies and have the field to itself? Can it even within a reasonable time, say the next ten years, be

* " The Committee, while not suggesting that more rapid progress should have been made in these various directions *anyhow*, draw the inference that if the movement is to continue on sound lines, it must take a very long time before it can draw a majority of people of limited means within its orbit, and that therefore it is futile to expect that an early and rapid improvement in banking and credit facilities through the agency of the co-operative movement alone can take place."—(Central Areas Provincial Banking Enquiry Committee's Report, para. 109).

" The extensive survey of indebtedness in 511 villages of Ajmer-Merwara shows that the co-operative movement financed the rural population to the extent of only 8·6 per cent. of their indebtedness. Intensive enquiries in certain selected villages in Ajmer-Merwara, North-West Frontier Province and Delhi indicate that of the total indebtedness in rural areas, only 6·6 per cent., ·26 per cent and 5·8 per cent. respectively, were financed by the co-operative movement."—(Central Areas Provincial Banking Enquiry Committee's Report, para. 107.)

" Among other signs of internal weakness may be mentioned, the tendency of solvent members to repay advances and to sever their connection with the movement."—(Central Provinces Provincial Banking Enquiry Committee's Report, para. 1398.)

expected to embrace within its fold even 50 per cent. of the agriculturists in the country? In order to answer these questions, all factors, which prevent the growth of the movement, its popularity, and the public confidence, which the movement secures, would have to be examined.

The registration of new societies is in the hands of officials especially appointed for the purpose, and in every province a certain number of new societies are being registered every year. It is for the protagonists of the co-operative movement to explain, why more societies are not being registered, and whether the limitation comes from the inertia of the staff at present specially engaged and charged with the registration of the new societies. It is for them again to explain, why more members are not joining the existing societies. I have not heard from the most optimistic supporter of the co-operative movement anything, which would justify the expectation, that progress will be made on a scale, which would embrace a moiety of the agriculturist population in the next ten years. Looking at it from the point of view of the principle of unlimited liability, it is open to doubt whether the full implications of this principle are realised by those, who join the movement. As education spreads, I do not know whether adherence to this principle will be strengthened. Outside agriculture and in private life, few men will be found willing to stand guarantee to an unlimited extent for the debts incurred by their closest friends and relations. I cannot help thinking, that for debts incurred by others, to ask a guarantee that would take away everything from a man under a certain eventuality, is to ask too much from him. The temptation to borrow and to secure loan at a low rate is undoubtedly irresistible, but whether the principle of corporate responsibility operates in practice, and whether members bring to bear on the work of the society that vigilance in the interests of the society, which alone would justify this principle, I am not in a position to say. There are arrears, in all provinces, of payment of interest as well as of instalments. These arrears are heavier in some provinces than in others. Public opinion amongst the members is obviously not strong enough to compel prompt and regular discharge of the obligation of each member for the repayment of his instalments. The forces for laxity must have outweighed the forces for enforcement, if the arrears are considerable. I shall let the Royal Commission on Agriculture speak on this subject. " For these disquieting conditions there are several causes, of which lack of training and of understanding of co-operative principles is the most important. The democratic principle is not so potent a force in checking abuses as is sometimes supposed. Members take insufficient interest in the working of their society; they exercise little restraint over their president and committee, and hesitate to evict from office an incompetent or dishonest neighbour. The office-holders, on their side, dislike incurring the unpopularity attendant on stringent action against recalcitrants and the recovery by legal process of overdue debts.

The calculated inertness of the two parties all too frequently leads to stagnation and dissolution."*

96. I do not wish it to be understood, that I deprecate or underestimate the moral value of the principle of unlimited liability wherever it is accepted after an understanding and enforced by local public opinion of the members. But the more it is considered, the more it seems unattractive from the point of view of the solvent agriculturist, who is either not in need of money, or can get his money on suitable terms without standing in the position of a guarantor for other people, over whom he has no control.

From the point of view of the members of the society, the unsatisfactory fact is, that the amount of money, which they can receive, is not limited with reference to their needs. It does not in all cases satisfy their needs. They have still to look for additional finance from outside. 40 to 60 per cent. of the members of the co-operative movement in the Punjab had contracted debt from outside. This would be true in varying degree of other provinces.† To what extent the co-operative movement merely supplements the financing of its members, which is done by another machinery, instead of supplanting it, is a matter of statistics. Such statistics, however, were not available. This severe limitation to the amount, which can be given to a member, must also act as a deterrent, as, after all, the borrower is not rendered entirely independent of the village Mahajan. There may be fullest justification for the restriction, because, the funds brought in by the co-operative movement from the centre, must be given out with due regard to safety, but it renders the position unsatisfactory from the point of view of the borrower. It is opposed to the principle of banking. A banker would prefer his client to deal with himself and would desire to give that client everything that he wants, provided he is satisfied about the solvency of the client and the security behind the loan.

97. *Public Confidence.*—From the point of view of public confidence in the movement, the position that was disclosed, was as follows. When a society is registered, a statement of the assets of the members is made out. These assets are valued, and the rules permit the credit of the society and of each individual member to be limited with reference to the total assets. There are rules providing for periodical and careful revision of such statements, but I understand, that they are not strictly enforced in all cases. These assets are further not secured in the hands of the society and are left free

* Report, para. 373.

† "The situation is particularly disquieting in Beawar and Todgarh circle where the indebtedness to the societies is decreasing while the outside indebtedness is increasing."—(Central Areas Provincial Banking Enquiry Committee's Report, para. 118.)

"Not only the indebtedness of the co-operative members continues to increase, but their dependence on *outside* financing agencies for the satisfaction of their economic needs shows no signs of being eliminated in the near future."—(Central Areas Provincial Banking Enquiry Committee's Report, para. 119.)

with the members to deal with. Solvent members have been known to go out of the society and others have been known to have frittered the assets or dealt with them with other creditors. The primary societies have in some cases through these defects come to grief, and the authorities of the Imperial Bank have very severely criticised the value of joint pro-notes of primary societies and Central Banks as collaterals for loans. The weakness may not be universal and in some provinces may be confined to a small percentage of the societies, but it is a weakness in the system from the strictly banking point of view and it has led to severe curtailment of facilities, which the movement was receiving from the Imperial Bank. Leaders in co-operative movement are quite conscious of some of these defects and I am assured that steps are being taken everywhere to consolidate the position and to remove the defects. Societies are being classed into "A", "B" and "C", which classification itself shows, that some of the societies cannot maintain the "A" position. In this, even if watch is being kept and improvement is being effected, if confidence gets weakened amongst those, who are financing the movement, the progress of the movement would be slow.

98. The co-operative movement derives some finance directly from Government. But more important than finance is all the indirect assistance in the maintenance of the co-operative department and in the numerous concessions, which the movement enjoys. There is further the feeling that the moral authority of Government is behind the deposits with the co-operative banks and Government's action in paying off fully all depositors of the Co-operative Bank of Burma, which cost them Rs. 35 lakhs* has strengthened such feeling.

The Imperial Bank was one of the sources of finance. The depositors, both in the Provincial Banks and in the Central Banks, are the second source of finance. At present the position is, that, taking the movement as a whole, the amount of finance, which they have got from deposits, cannot be used by them. Such a position obviously cannot last and once the swing is on the other side, more finance would be wanted. It is, when the movement expands enough to absorb the surplus and comes for additional finance, that the question of public confidence will assume supreme importance.

While there may be no difficulty in securing the growth of the co-operative movement at the same rate, at which it has grown in the last twenty-five years, I see many difficulties in expecting its growth at a much more rapid pace. I do not expect to see the co-operative movement embracing within its fold even half the agriculturists in this country in the next ten years. I therefore see the need for other ameliorative measures, which would secure the benefit of cheaper finance to agriculturists not yet influenced by the co-operative movement.

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* Burma, para. 391.

So far as the movement itself is concerned, as indicated before, it is fundamentally a means of securing from the centre of the money market and from those, who have savings, cheap finance and making it available in the rural districts. To the extent to which it goes, it is doing good work, and I support the various measures, which have been suggested by the Provincial Committees, which will strengthen the movement, and which will secure reforms in its present organization. The Royal Commission on Agriculture say: " The main results achieved may be said to be the provision of a large amount of capital at reasonable rates of interest, and the organisation of a system of rural credit which, carefully fostered, may yet relieve the cultivator of that burden of usury which he has borne so patiently throughout the ages. Knowledge of the co-operative system is now widespread; thrift is being encouraged; training in the handling of money and in elementary banking principles is being given. Where the co-operative movement is strongly established, there has been a general lowering of the rate of interest charged by money-lenders; the hold of the moneylender has been loosened, with the result that a marked change has been brought about in the outlook of the people."

99. *The Co-operative movement as a nucleus of thrift institutions.*—The funds of the co-operative movement, in so far as the public is concerned, are drawn by two methods, *viz.*, the shares and the deposits. To the members of the movement, both these methods are open to the fullest extent and there are certain restrictions in detail with regard to non-members' dealings.

The deposit facilities offered by the provincial banks at the provincial capitals are useful, but they are by no means unique, as other banks also offer these facilities. They assume much greater importance when we come to the central banks, particularly in those places, where there are no branches of the Imperial Bank or the joint stock banks. It may be noted, that the rates offered by the Imperial Bank on deposits are lower than the rates, which are offered by the provincial bank, yet it is not unlikely that recent restriction on the part of the Imperial Bank, for which they derive justification from technical grounds, may have had at its bottom a substantial business jealousy with regard to deposits. There are 490 central banks and this is a very great public advantage for the creation of deposit facilities. Deposits are taken at the central banks from members as well as non-members. In fact in many provinces they are drawn more from non-members than from members.

The powers given to primary societies in practice to receive deposits from non-members are extremely limited, because the central banks are jealous of their competition, and it is also suggested that primary societies would not be in a position to make proper liquidity arrangements for the due discharge of these obligations, that they may not have the staff to deal with operations involving responsibility, and that they have not always the means of safe custody of funds. Greater facilities have been asked for

and have been recommended to enable primary societies to put their funds with the post office for this purpose.

Thrift certificates are issued by several provincial banks and by central banks in some provinces. These are issued in the first instance to members, but are also available for the public. By whatever name they may be called, they really represent in effect a long-term deposit.

100. So far as the savings of the members are concerned, there is a little fiction, and I have not been able to realise the importance of this fiction in practice. If the taking up of a share is compulsory on members, and if the placing of deposit is compulsory on members, as I believe is the case, the immediate practical effect is that, where such members are borrowers, there is a substantial reduction from the loan taken by them. While they may be used to such substantial deductions through the practice of the money-lenders, and may, therefore, acquiesce in it, it tends to perpetuate a vicious system. That such compulsory deposits are uneconomic, would be seen from the fact that arrears in the payment of interest and instalments take place afterwards at the hands of those, who make the compulsory deposits. It would be seen from the complaint, that the amount received from the societies by borrowers satisfies only a fraction of their needs, leaving a very large number of them to go to other credit agencies. I do not wish to disparage where thrift is a reality as from a member, who is not a borrower, and it deserves the greatest appreciation, when it was from a man, who was a borrower before, but had discharged his debts and had crossed the line and come over in the region of saving. But thrift figures of the co-operative movement are vitiated by the system of compulsory deposits, where members' deposits of this nature and the share capital of co-operative institutions are mentioned as security against outside borrowings, and when these figures are marshalled out in front in official reviews denoting satisfaction as a sign of progress in thrift, it is that their essentially uneconomic character needs to be realised. The co-operative funds are largely the funds from the centre moving down to the rural districts for being lent out. They do not represent in any very appreciable portion the savings of the districts themselves, because some portion of the members' deposits are not really their savings, but their borrowings.

The deposits are taken in the co-operative movement according to the needs of the movement, and not according to the needs of depositors. There are limits to the amounts, which could be borrowed, particularly from non-members. As there is a very great variety of rules in connection herewith in different provinces and also of discretionary permission, I shall not go into detail, but would point out that, if the co-operative movement claims that theirs are thrift institutions, there should be no limits to the moneys, which they would accept from the public in rural districts, where the public has such money to deposit. The co-operative movement falls very short of the ideal of thrift institu-

tion, in comparison with the post office savings bank from this point of view.

The other question in connection with the co-operative movement, which is of supreme importance, is the question of current accounts.* It is necessary to ask, which of the co-operative institutions are taking current accounts really from non-members and allowing them to operate on them by cheques. I am not sure if there are many institutions, which accept current accounts even from members. There is no sanctity about current account, except that it leaves the depositor free to get the money, when he wants it rather than at some arbitrary date when the deposit receipt matures. It is a very great convenience from the point of view of the depositor, whatever may be the difficulties from the point of view of the institution taking such deposits.

101. *The relation of the Co-operative Movement to other Credit Agencies.*—The progress of the co-operative movement has not been made, without exciting suspicion and jealousy in the minds of every other class of bankers. So far as the village Mahajan was concerned, this was inevitable as it was to supplant him that the movement was started, and this object was proclaimed from the housetops. According to the Royal Commission on Agriculture, the working of societies in many places has had a restraining effect on prevailing money rates all round. The object of supplanting has not succeeded, except fractionally in the Punjab. According to the Royal Commission, it is the co-operative movement, which has given a serious check to the activities of the moneylender, and yet the Punjab Committee note that moneylending is the second most important occupation from the income-tax point of view in the Punjab. The attitude of the moneylender towards the co-operative movement has, however, not been always hostile, and some Committees actually recommend, that something should be done to secure the moneylender's co-operation with the movement by having him on the Committee of the society, provided he would agree not to lend any money to the members of the society. As things are, I cannot help thinking that in some cases, the moneylender would encourage the formation of a society from amongst his clientele in order to get hold of the funds, which would come from the centre. He would get these funds in repayment of his old debts and let the society dwindle, or he may keep it alive and merely use its funds at a low rate of interest for his other operations. This aspect has never been brought out in our discussions, but I am mentioning this as an economic possibility. The fact that a considerable number of members of the co-operative society,

* The MacLagan Commitee and the recent Committees on co-operation in Madras and Burma, were opposed to district central banks receiving deposits on current account. In their opinion, co-operative banks instead of themselves taking deposits on current account would be better advised to manage their business so as to enhance their credit with commercial banks which could discount their bills and to some extent average the ups and downs of agricultural business with those of a wider business.—(Burma Provincial Banking Committee's Report, paras. 407-08.)

generally exceeding half, are also debtors, and probably derive their finance from the village Mahajan, would indicate that there is no water-tight compartment. There is also reason to believe that in some cases the debts to the Mahajan are greater than the debts to the society. The society collects interest and instalments, but, subject to that, leaves the member alone, whereas the Mahajan is allowed to be in a position to foreclose at once. He is in a more real sense sitting on the securities, which the borrower has got. Not having any strict rules, he is also the party, to whom the borrower can, and does, look to satisfy any emergency need of the borrower. Without disparaging the good work of the co-operative movement, I should like to put forward the hypothesis for a closer examination as to whether the co-operative movement is not merely a supplementary channel for loans to agriculturists, instead of being a rival. From the point of view of the total funds engaged by societies in loans to agriculturists, compared with that engaged by the Mahajan, this would be a more logical conclusion. Such a conclusion would not justify the slackening of any effort in advancing co-operation in this country, but would be an argument for strengthening it. On the other hand, a better appreciation of this fact might lead to the clearing of the atmosphere and the avoidance of the propaganda, which the movement is carrying on directly, and by implication, against those, who are rendering an economic service, and without whom the agricultural community cannot carry on for many years to come. If co-operative credit is to expand, it will be because of the attraction of cheap money, which is its principal source of strength. If cheap money is forthcoming in larger bulk, or to the extent to which the members of the movement need it, the moneylending system would of its own, decline, and the hold, which it has over the agricultural classes, would weaken. Such hold cannot weaken merely by creating a sentiment against the village Mahajan and by creating discontent in the minds of the borrowers, without allaying such discontent through an alternative machinery.

102. The relation of co-operative banks with joint stock banks have not been unhappy, but those in the direction of joint stock banks have felt that the concessions, which the co-operative movement is enjoying, give them in the competitive field an advantage. I have referred to these concessions in their effect on joint stock banks later.

With regard to the relations of the co-operative banks with the exchange banks, the point of contact has been shown to be small and negligible, but it appears that there have been difficulties with regard to call money. The exchange banks would take call money from the co-operative banks, but would not give them call money in return. In this matter some Indian joint stock banks also are co-sufferers with the co-operative banks.

With regard to the Imperial Bank, there have been serious complaints and violent controversy in the co-operative field. The argument of co-operators is that the Imperial Bank are Govern-

ment bankers and the obligation on the Imperial Bank to help the movement arises from this fact and no other. Government have recognised the importance of co-operation, and are assisting it in various ways, and it is not for the Imperial Bank to exercise a discretion, which is altogether cut off from the consideration of their being Government bankers. The Imperial Bank, it would appear, have recently curtailed cash credit and overdraft arrangements, which the co-operative movement was enjoying. They have discontinued taking as collateral the co-operative paper and given notice of their intention to stop overdraft by this method altogether. Mr. MacDonald was very firm about this, but Sir Osborne Smith promised to consider each case on its merit. In reply to my enquiry, it was indicated that the Imperial Bank had not yet lost any moneys on the cash credit given by them. Nor indeed was there any default or delay. In the case of the Provincial Bank in Bombay, a technical point has been brought out. It is fortunate, that the action of the Imperial Bank has coincided with the period when the co-operative movement has a good supply of funds. They have overcome their difficulties by loans from one Provincial Bank to another.

The argument put forward in support of the action of the Imperial Bank, was two-fold. One was the inherent defect from the banking point of view of co-operative paper, and the other was, that co-operative banks had begun to regard the overdraft facilities from the Imperial Bank as their cash in case of need, and were not in effect using these overdraft facilities very much. The Bank was not, therefore, making anything on this, and yet had to be ready when any co-operative bank called for funds, to meet the demand.

103. The staunch advocates of co-operation have also brought out another fact, which may be stated. They have brought it out that since 1925 the general tendency has been towards restriction of the movement. The reason for this restriction was that it was found that, whereas the movement had expanded, it had not been consolidated, but that the expansion had gone on too rapidly. The period of consolidation was, therefore, wanted and also of internal reform. Progress was, therefore, in many places slow. In the discussion in the Committee, it was also mentioned that this restriction was deliberate as part of the policy of credit contraction, which was going on, since currency contraction by itself would not being about the desired fall of prices. Whether the Imperial Bank, therefore, acted on purely business considerations, or whether they acted in conformity to the general policy of contraction, is a matter, on which I am unable to decide, as no evidence, either for or against, was adduced before us.

A good proportion of the funds of the provincial banks is held in government securities, so much so that it would appear, that the co-operative banks are a good means of attracting public money by deposits and putting it in government paper. To some extent the holdings of government paper are regulated by rules

with regard to the investment of reserves and with regard to the liquidity. To the extent to which investments of this kind exceed the strict requirements of the rules, they may be explained by the fact, that the banks could realise more on their investments on government paper, than they had to pay on their deposits. Whether this condition will survive, it is difficult to say. But joint stock institutions have complained that the co-operative banks take away deposits and, instead of using the funds thus secured for financing agriculture, are merely diverting them, through their purchase of government securities, into government purposes. They contend that if these funds had remained with joint stock banks, they would have gone to the financing of trade. I do not wish to emphasise this point too far, if large holding by co-operative banks in government securities is a temporary phenomenon. I feel that the rules for liquidity requirements and for investments, which have been framed, were framed in a conservative spirit of caution, but they need revision.

104. Since the encouragement of the co-operative movement has been a theme of high pronouncement from His Majesty the King-Emperor downwards, and since there are no two opinions with regard to this subject, I should like to suggest a definite method of securing this result. The criticism of the Imperial Bank with regard to the quality of the pro-notes of primary societies and central banks and the nature of the security behind these pro-notes, is one, which deserves the greatest attention of those, who are guiding the movement. A sure position at the bottom needs to be built up and rather than weakness be disclosed after the lapse of some years and suddenly, it would be better if the audit were strengthened and such weakness as there was, were brought out early. The division of the societies in "A", "B" and "C" class is itself a wise method of discrimination, which would direct greater vigilance and attention towards the "C" class. Subject to this, I do not see any reason why pro-notes with the signatures of primary societies and central banks endorsed by the Provincial Bank, should not be considered suitable collateral when the societies, whose signatures appear on these notes, are "A" class societies. If the co-operative movement claims, that it is doing useful work by providing centres for the deposit of savings, and if this claim is the foundation of the sympathy and support of the public, then the deposit side of the movement is of importance. If deposits are accepted in such quantities as they are now, and increasing quantities as they will come hereafter, prompt repayments, when due, must be secured in order to maintain the credit of co-operative institutions. If, for such prompt repayments, a large percentage of these funds is to be kept liquid, it has the consequence of increasing the lending rate, on the one hand, and restricting the funds to that extent, which could go towards the finance of agriculture. The co-operative banks were, therefore, quite correct in regarding the overdraft facilities from the Imperial Bank as the cash, from which they would meet obligations. The Imperial Bank obviously declined to be treated as an

apex organisation with a definite duty of helping the movement with funds against co-operative paper. In my opinion they have taken an unduly severe attitude with regard to co-operative paper, much of which may not be of a doubtful character.

The unsatisfactory position of the co-operative movement in connection with the Imperial Bank was recognised, and the co-operative paper, against which the Imperial Bank has declaimed, was definitely indicated in the Reserve Bank bills as eligible security, against which the Reserve Bank could finance the movement. The Reserve Bank's obligations in this connection would be much more direct and clear, and the establishment of the Reserve Bank should give to the movement the support, which it has hitherto looked for in vain from the Imperial Bank.

As an administrative measure, it would be, however, advisable for the Reserve Bank to establish a separate department, which would watch the co-operative movement, keep the necessary information and meet the requirements on a basis somewhat different from that, which would be adopted in dealing with joint stock banks.

105. There appeared to be some confusion of ideas with regard to the need for bringing more funds to the co-operative movement. It was suggested, that the movement was taking more deposits than they could use, and could not utilise all the funds available. The co-operators, on the other hand, were of opinion that this was due to the restrictive character of the administration. The registrars have great powers, and the rules, under which the movement is working, were unduly restricted. The credit of each primary society was fixed, which could not ordinarily be increased. New members could not be, therefore, attracted, as it would bring down the limit, to which each member could borrow. The registration of new societies was also a matter of absolute discretion of the department, and it was said that this discretion was not being used with a view to expansion, even where there was a promising field. On the official side, there would doubtless be an explanation of this, perhaps of the kind, which the Royal Commission on Agriculture embodied in their report. The mere existence of borrowers is not the basis of the expansion of the movement, as there must be somebody willing and able to carry out the work of the society. The progress is, therefore, bound up with the progress of what the co-operative literature calls, " the education of the public ", as well as with the existence of very reliable non-official or properly trained official machinery. I am indicating this controversy, because it is no use preparing at the top for extensive and almost unlimited facility, unless funds could be fully and properly utilised at the bottom on sure and safe lines. The difficulties in the expansion of the co-operative movement are, it is hoped, of a temporary character, but the arrangements at the top for the supply of funds should be elastic, and should be such as would meet the needs, as and when they arise. A separate department of the Reserve Bank, with an officer in charge with the

special function of watching the movement and pointing out its weakness from the economic and strictly banking point of view,* would help, as the willingness of the Reserve Bank to come to the succour of the movement must depend upon the observance of business principles in the running of the society.

In view of the close examination, which the working of the co-operative movement has received at the hands of the Provincial Enquiry Committees, and the recommendations made by them, I have avoided any reference to such topics as the relation of various types of rural and urban institutions to one another and to the Provincial Bank, the relation of the whole movement with regard to Government control, the nature, the cost and extent of audit, the constitution and functions of the co-operative institutes, co-operative propaganda, whether by Government or by the movement, and co-operative education, whether inside the movement or through co-operative institutes, or in the educational institutions of the country.

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* I would illustrate this by what I have heard. I was told that registrars would not allow the central banks to lend on mortgage or against ornaments to members as it would weaken the co-operation spirit! I also heard that one registrar opposed the reduction of rate on loans on the ground that cheap credit would harm the borrower!

According to the latest figures available, the number of Agricultural Credit Societies, including Mortgage Banks, was 74,400 with a membership of 2,400,000 and a working capital of about Rs. 30 crores. The proportion of members of Agricultural Societies to families in rural areas (not to the whole population), according to the Royal Commission on Agriculture (para. 372) was as follows:

Punjab	10·2
Bombay	8·7
Madras	7·9
Bengal	3·8
Burma	3·7
Bihar and Orissa	3·1
Assam	2·9
Central Provinces	2·3
United Provinces	1·8

CHAPTER IX.

THE INDIGENOUS BANKERS.

106. Whoever coined the words " indigenous banker " has not done a service to India. The word " indigenous " is a direct contrast of " foreign ". There have been foreign banks in India, but Providence has been kind that there have not been foreign bankers doing work, which the indigenous bankers are doing. The designation is not a happy one. Nor is it a correct description. Nor does it help in the classification. The Provincial Banking Committees' reports describe fully and graphically the different types and varieties of bankers and moneylenders engaged in small functions and large functions, mixed up with land, the trade in precious metals, the trade in grain down to peddling, and no useful purpose will be served in reviewing this great heterogeneous class and in dwelling on their peculiarity, on the services which they perform, on their practices and malpractices. Nor can there be any recommendations, which would bring usefully within its compass the whole of this class, except those which affect them negatively. Such recommendations were made by the Royal Commission on Agriculture. They have been reiterated by most of the Provincial Committees. I would propose the following action:

(1) Application of a Rural Insolvency Act in those provinces, where it does not exist, simplification of its terms, such as, reduction of Rs. 500 limit and getting it better known amongst the agriculturists through the same official machinery, which may be used for debt conciliation.

(2) Better utilisation of the Usurious Loans Act. It would be necessary to add some additional provisions to this Act on lines of the English Moneylenders' Act.

(3) Enactments similar to the Punjab Regulation of Accounts Act in other provinces.

I make these recommendations because of the intention behind them, *viz.*, that parties, who are weak, or who have been rendered weak by their impoverishment, must be protected in their dealings with parties, who are strong, where the latter try to take an unfair advantage of the situation. The existence of a law is in itself a check, and its enforcement by exemplary punishments against flagrant offenders would set a salutary example. But I do not think that the fixing of a maximum rate of interest by law can in itself lead very far. It would prevent the appearance of a higher rate on paper, but would not prevent a higher rate being exacted in practice from a needy borrower, if such borrower cannot secure better terms elsewhere. Laws have existed in India, but have remained a dead letter. They rather express the goodwill and sympathy of the legislature towards certain parties than serve to

protect these parties in practice. All the same, improvements may be expected by adopting the recommendations made above. What I have not been able to understand is, that, every provincial government spends a lot of money only for propaganda and education of the people in the principles of co-operation. I think propaganda and education of the people with regard to the rights, which they come to acquire under these laws, and in regard to the protection which the law gives them against malpractices, is just as important, and it is very desirable that information should be spread on this subject through Bar Associations, school teachers, postmasters, etc.

Constructive recommendations with regard to the private banker would require classification of this group. The proposal dealt with under the section of Reserve Bank in paragraph 299, which will secure membership of the Reserve Bank for indigenous bankers and certain privileges for rediscounting etc., is of this kind. It isolates the private bankers, who pledge themselves to confine their activities to banking alone, and it would induce some of them, who indulge in mscellaneous activities now, to concentrate on banking.

107. *Licensing or registration.*—Beyond this, the majority of the Committee have not made any recommendation, which will help the private banker, the moneylender, the Mahajan or any one of the fraternity. Several Provincial Committees have expressed themselves in favour of such registration or licensing involving certain duties and obligations, and certain restrictions and certain privileges. The majority do not favour compulsory registration and do not see any advantage in a system of optional registration.

The arguments against such registration are many. There is the difficulty of defining a private banker, who would be eligible for registration, a difficulty, which becomes very serious, when the banker is also engaged in trading. But the principal obstacle to compulsory registration is probably the casual moneylending operations of different parties and persons, including the cultivator himself. All loans could not possibly be brought within the compass of the recommendation, and the attempt to regulate rates would involve a very vexatious interference with private operations, and the administration might become costlier without yielding any serious results.

There are, on the other hand, very weighty considerations, which support the proposal for registration, even if it is not made compulsory*. At the present moment the information given by the Provincial Committees on the number of private bankers and on the amount of capital, which is engaged in their business, and the rates, which they charge, is meagre, conflicting and misleading. At any other time in future if the legislature desired information on this

* If a class of recognized bankers is thus created, it will grow and prosper and become a source of strength to the banking system of the country. But the indigenous bankers must be left free to ask for recognition or not.—(U. P. Provincial Banking Enquiry Committee Report, para. 471.)

subject, it would be met with the same negative condition, *viz.*, that no information is available. This is not a satisfactory position. Those, who come within the scope of the income-tax, do give information of their operations to the state, and the question is of getting this information in a little more systematic form and of adding to it with regard to smaller parties, who are not at present paying income-tax. There are private bankers of whose business moneylending constitutes an important part. There are others, with whom the income from moneylending is not important; but the capital engaged in this work is great. If no attempt is made now, no reliable information will ever be available and the existing difficulty of suggesting remedial measures would continue. The ability of the state to stop malpractices is also restricted, where the general operations are shrouded in mystery.

Two proposals have been made, which will secure the enrolment of the private banker. One is the proposal contained in paragraph 299 in connection with the Reserve Bank. The second is the proposal already set forth in paragraph 76 with regard to the enrolment of guarantors. These two proposals will involve the sifting out and isolation of the more important of the private bankers and the sowcars.

108. I consider that some good could be secured by a system of optional registration in each province. The duties and obligations of the parties registered need not be very heavy. I do not think it would be possible to put a limit to the rate of interest, which they charge, since the bulk of the capital dealt with by them belongs to them, but as an inducement to registration, I would suggest the following privileges* and concessions to be extended to them :—

(1) Concessions on their remittances on the same scale, on which concessions are given to the co-operative societies and central banks.

(2) Acceptance of their certified cheque for payment of land revenue.

(3) The question of giving them the benefit of the Bankers' Books Evidence Act may be examined by the Legal Department of the Government of India.

Most of the Committees, that recommend license or registration, also desire that such registered bankers should get privileges either

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* *Remittance.*—Central Areas Committee suggests that the registered banker " should be entitled to remit free of charge, through the post office, sums not exceeding a limit."—C. A., para. 217.)

Bankers' Testimony Act.—Madras Committee recommends that the " registered banker should be given the benefit of the Bankers' Testimony Act."—(Madras, para. 503.)

Bengal Committee suggests inducement to the registered bankers the privileges of the Bankers' Books Evidence Act.—(Bengal, paras. 398-399.)

The Central Areas Committee recommend special summary procedure in their favour against the debtors. This could be done by the discretion of the Court, if the law permitted. I recommend this to be done. Where it requires a change of law, the position is complicated and may be examined by the Legal Department of the Government of India.

in the capacity of agents to the Imperial Bank or other banks, or they should have preferential treatment in the matter of the discount of their hundis. Limits would have to be fixed for them and they would be acting with regard to hundis in the case of internal trade as acceptance houses. This line of advance seems to be feasible and should be encouraged for the creation of a bill market in the country, as well as for strengthening and keeping alive the system of private bankers.

109. If the system of registration is instituted, I would not recommend any mechanical limit of capital of the banker, which will secure him registration. If it is desired that registration should be sought, it has to be put forward not as a restriction, but as a privilege. The enrolment referred to in the case of the Reserve Bank and as guarantors, would be a privilege. If registration is also to be on that basis and if it is to become a cherished object, the number of private bankers, to whom the registration would be open in a district, should be limited. It should be by selection through the Reserve Bank or its agent in the district, and it should be confined in the first instance to about 25 to 30 private bankers in a district. This will rope in the more important ones and if the several privileges and concessions, which are indicated, are substantial, more will seek to come in, when they realise that the proposal is not for checking their growth, but for supporting them in the lawful pursuit of their activities.

The private banker has played an important part in the economic life of the country in the past and is playing it to-day. His fortune is bound up with that of the community, and the community's fortune is bound up with his. In many a crisis, he has stood with his constituents and the fact that he has made his money from the community, gives him in normal times that restraint, sympathy and fellow-feeling, which is a surer check to abuses than any legislation. From the smallest to the biggest, the private banker is being assailed by forces, which he is not always able to analyse and recognise. His trading clients have been squeezed out of business. They have been unable to use the money, which he was lending, and in some cases they have come to grief in competitive business. The direction of trade has altered. It is the man, who comes armed with ready finance from cash credit, at the centre, or his agent, who collars the trade. Partly, therefore, the future of the private banker in India depends on the future organisation of the internal trade of the country. Apart from this, it must depend upon their enterprise and the capacity for leadership, which some of them can show. Extreme jealousy of one another characterises their outlook in life, and the methods of isolation and secrecy could not lead to the formation of public opinion, which alone can enable them to sustain their role. The formation of associations amongst private bankers has been suggested. Such association will readily emerge in the case of Reserve Bank members and those, who are enrolled as guarantors. It should also be formed in the case of registered bankers, if the

scheme of registration, indicated above is adopted. Regulation of every kind, imposing restrictions, obligations, duties, or conferring privileges, calls for two things. Vigilance from the top, that the privileges are not excessive and are not abused, and the obligations are duly discharged and have not been neglected. It similarly requires, on the other side, watchfulness that the privileges mentioned are not whittled away, and the obligations are not enforced in a manner that would be severe and that would inflict losses. Such would be a living arrangement, when those representing the general community and those representing the bankers would create mutual understanding and bring about mutual corrective. On the lines, on which institutions calculated to develop opinion and to advance the propaganda in the co-operative movement are helped, such associations of private bankers would be deserving financial aid from the state.

Future of the Private Banker.

110. There was a very widespread feeling that the Indian system should be saved and that the private banker in India should be enabled to live. Whether the measures suggested above will bring about that result or not, it is very difficult to say. The private banker is everywhere losing his hold on deposits, even to the limited extent to which he was taking deposits. When competition of new agencies reduces the lending rates, it may be doubted whether he will survive.

What would be the transformation of the private banker in the near future, is an interesting speculation. He might, if he was recognised as an agent for credit, become a bill broker or an acceptance house. He might turn himself into a joint stock bank and begin to take deposits. He might combine with other bankers into more powerful syndicates, or into the joint stock bank, but the liking that he would have for such combination is, to my mind, not much. Had the social structure in India and the psychology of these people permitted a combination, such combinations would have come about long ago and they would not have lost the ground, which they have done.

Another method, which has been suggested to us, is the system known in Germany as the "Kommandit" system, by which in a joint stock organization the shareholder charged with the management comes in with unlimited liability. Something similar is permitted in India under section 70 of the Indian Companies Act.

111. It is impossible to entertain high hopes with regard to the emergence of joint stock enterprise in banking from the private banker either by himself, or in combination. Joint stock enterprise in India generally, since its introduction, has had to suffer serious reverses on many occasions and through many causes. The precise causes are not always appreciated, but the general effect of its failure persists in discouraging such enterprise. There is also the important question of cost in the case of a joint stock enterprise, the initial cost and registration etc., the obligation to publish accounts,

and the subsequent running costs, which must act as a deterrent to those who have worked economically in the past. The fate of many joint stock banks for one reason or the other, but more particularly through the jealousy and intolerance of older institutions leading to a run on them, or leading to a failure, could not have escaped notice. The privileges of joint stock banks are few and their privations many. Under these circumstances, while one may sympathise with the hopes expressed in several Provincial Committees' reports that the private banker may come in line with modern conditions through the principle of joint stock and limited liability, or with unlimited liability on the "Kommandit" principle, until the atmosphere is improved and made more conducive to the prosperity of joint stock banks in India, the expectation of progress along these lines would not be justified.

The Small Moneylender.

112. The fate of the humbler moneylender need not detain us. He can swing off to other activities with much greater facility. If the Indian population was rich and the demand on behalf of the consumers became important, the hire purchase system would replace moneylending in certain directions, as it has done in the west. The small classes with small needs, such as labourers, contractors, small traders and shopkeepers, artisans, and people, who run small workshops, government servants and other men employed in public utility and other enterprise, may come in course of time to satisfy their needs in the same manner, in which such needs have been satisfied in the west. There may be trade unions, co-operative societies for sale or purchase, slate clubs, benefit societies, friendly societies, provident funds, insurance and the like, of which small beginnings are seen in some places in India. Whether the savings of money become available to the few through an organization, which is managed by the people themselves, or through an independent organization, is a matter of detail and an important detail, but in essence, the economy effected is, that the savings of some are pooled and accommodation is available to others according to their needs. Since the moneylenders occasionally trade on the helplessness of others, it may be assumed that they are not themselves helpless and are quite capable of taking care of themselves. No case has been made out for definite state help to them. On the contrary, the whole trend has been in the other direction, *viz.*, that the savings of the people should be collected and should be so marshalled that, as far as possible, they may be available to the people themselves. As an avocation, moneylending stands in no danger, as, ever since the use of money, it is one of the oldest and ineradicable occupations. Even the reproach attached to moneylending must diminish with the increase of moneylending by cultivators themselves. All this offers a most tempting field for enquiry, but, since there are few measures that can help or hinder the small lender and the casual lender, further discussion of the future of the moneylending in India is fruitless.

THE MONEYLENDER OF THE PATHAN TYPE.

113. While the problem of moneylenders generally presents a case of usury and several malpractices associated with it, such as initial deductions, etc., it radically alters when we come to the Pathan moneylender. It is possible that, under the designation of "Pathan" are covered in popular parlance many, who do not belong to the transfrontier region. They operate in many parts of the country and in many ways, and the evil is more acute in some places than in others. It arises primarily from the fact that their ways of life and thought are substantially different from those of the population, amongst whom they operate. Their remedies for recoveries are not in accordance with law. They recognise no insolvency and no circumstances, under which the repayment can be delayed. Terrorism is part of the mechanism, which these foreign moneylenders generally use. The problem, therefore, is more a social problem than a banking problem, but, because it is an acute problem, a solution, that would be effective, must be suggested.

The Bombay Committee have recommended that, where complaints become common, action may be taken under the Foreigners Act to deport them, or under some other special legislation. The majority have supported this recommendation.

I do not see the adequacy of the action proposed. It is true, that Provincial Governments would act when, in their opinion, the situation calls for action. But it would be more desirable to take preventive action than curative one. Whatever the arguments may be for a system of registration of moneylenders generally, and for such a system not being compulsory, the moneylending operations by parties foreign to the country, or those, who are akin to the Pathan tribes even if they happen to be British subjects, are not desirable. It is universally acknowledged, that they are usurious in the extreme. They encourage a small man to resort to the insolvency court in order to defeat Indian creditors to be able to pay those, from whom he cannot escape. Cases of suicide through their terrorism have been known, and little parties are encouraged by other devices to get the money to pay these people. I, therefore, recommend, that moneylending by such classes should be allowed after they are registered with the police, and that such registration should be granted for a year on payment of one rupee. Having to report to the police station would in itself secure the moral object, as the moneylender would then feel, that somebody is watching him and his operations. Where a moneylending transaction is reported by a party not so registered, a case for deportation is made out at once. Where complaints occur, identification by finger prints would be of considerable importance. To allow the evil, to go up to the stage, where drastic action is required, and then to apply the drastic action indiscriminately, does not appear to me to be the best way.

The registration would necessarily apply to parties, who lend out cash money. There would be a few, who do the lending operation

under the guise of selling commodities, but the onus of proof, when the question arises, will be on them that cash was not lent out.

It is true, that only those classes, whose credit is very low, resort to the Pathan. But, since a rate of one anna per month per rupee is not unusual, the popular idea that once in the clutches of a Pathan, one can never get free, has some foundation for it. The community has a right to be protected by proper legislative and administrative measures against social pests of this kind. On the other hand, the Pathan is also entitled to some warning, that he is watched and that drastic action will be taken, if he takes law in his own hand. This warning, it is not possible to give him, except at the time of registration, when he calls at the police thana. The Pathan is not unintelligent, and would realise that registration has some object. If the system of loans by Pathans is not to be eradicated, but is to be tolerated, it has to be regulated. It cannot be done by leaving things alone till the evil has accumulated. Until the Pathan gets used to civilised, peaceful and lawful methods of debt recovery, the method of compulsory registration in his case might produce salutary results and might give the authorities a ready material at hand to act upon in the event of acute complaints.

Banking expansion in India.

114. The indigenous banker is obviously being squeezed out. It is possible that his income under the head of remittances has been reduced. The reduction in the number of trade bills on account of the expansion of the cash credit habit must also account for this tendency. According to the Punjab report, the protection given in law to agriculturists is also a cause. The penetration of the larger banks in the interior has been noted by the Bengal report as the principal cause, depriving them of their deposits. It has been suggested, that it is in order to make up their loss of income, that they have been driven into trading and other speculative operations. The trading operations must, however, inevitably reduce the banking field open to any firm. The post office savings bank and the postal certificates had undoubtedly something to do with the taking away of funds, which came for safe custody to him.

In spite of all these difficulties, the Mahajan and the Shroff still survive all over the country. Certain communities, like the Chetties, Multanis, and Marwaris, have large and extensive operations, much farther afield from their place of birth. They have also the *espirit-de-corps* and they help each other. The hope is expressed in some of the provincial reports, particularly in the Central Provinces report, that the Indian banker might turn himself into a joint stock bank, or might combine with others to do so.

It is, however, a losing battle for the indigenous banker against institutions that can raise any amount of deposits at a cheap rate and that can freely transfer their loanable funds from one centre to another as desired. It would only give breathing time to a

system, which has been killed out in the Punjab, where the Indian joint stock banks have been many and in great vigour, and which is doomed in other provinces.

What then is to happen has not been indicated. The present position of drift and devil-take-the-hindmost will not help the indigenous system. It is for this reason that I have recommended registration, which will secure information, and privileges, which will sustain them against adverse circumstances.

According to the Bombay report, 70 to 80 per cent. of the finance of the internal trade is done by the indigenous bankers.* Most of the reports acknowledge the very extensive transactions done by them and the support, which trade and agriculture derive through them. In the case of agriculture the support is not direct, but through the Mahajan or moneylender, but it is there. If anything happened to this indigenous system, the direct help to industry and agriculture would be off. The indirect help to agriculture through the moneylenders would also diminish and the burden of the agriculturists might tend to be increased, a result, which this Committee has been expressly charged to circumvent.

* It is a fact universally recognised that although the share of the indigenous bankers in financing the foreign trade is negligible, amongst the agencies financing agriculture and the internal trade and small industries of the province they occupy a predominant position. On a conservative estimate their share in this business may be computed at 70 to 80 per cent. of the total.—(Bombay Provincial Banking Enquiry Committee's Report, paragraph 257.)

CHAPTER X.

INDIAN JOINT STOCK BANKS.

115. In the previous chapters have been examined the economic conditions of the small man with reference to his financial needs and the position of those, who supply these needs. This has involved the considerations affecting the largest section of the population as well as larger amount of capital engaged in these operations by the private banker as well as by the co-operative movement, than the working capital of the larger banks in India. This brings us in the field of trade, both internal and foreign, and industry of the modern type, as well as of financing institutions of the modern type known as banks. We come to the field, where the unit of operation is bigger and the unit of finance is also bigger. I propose that this field should be examined with reference to the general questions, which affect all banks operating therein, and then with reference to the obvious classification, *viz.*, the Indian joint stock banks, foreign banks, the Imperial Bank of India, and the proposed Reserve Bank. I do not propose to recommend what banks should do and what they should not do, because, they are institutions working on business principles, and are neither likely to take their guidance from the Central Banking Enquiry Committee, nor heed the warnings. The proper thing would be to examine what the actual progress has been in the growth of banks in India, and why it has been like this; whether it differs materially from the course of events in other countries, and if so, the principal causes of this difference. It would be equally misleading to suppose that banks in India could do greater service or dis-service than banks in other countries, or that they could achieve greater results than are warranted by the inherent possibilities of the situation.

I do not like the classification that was mentioned during our discussions, *viz.*, commercial banking, industrial banking, and banking for the finance of foreign trade. There may be some special point with regard to financing facilities for agriculture, for which on the one hand, the co-operative system has been specially created, and, on the other hand, the private banker and money-lenders do the work. There may be a further justification for this division with regard to agriculture in the sense that agriculture is spread out and the banks have not reached there with their branches. Also because the normal unit with regard to loans, in which the banks deal, is very much higher than would suit small parties engaged in agriculture.

The direct result of this classification is to give a misleading impression with regard to the operations of existing banks in India, many of whom give all kind of finance to their customers. The Imperial Bank lends out to industry large sums, as was claimed by Mr. Macdonald in his oral evidence. The 'Exchange' Banks have pointed out that Indian joint stock banks do handle bills with

regard to both export and import trade, such bills as are offered to them, and when they have no facilities to carry through the business through their own organisation, they have availed themselves of the assistance of other banks. In any case, the foreign banks, which are called 'Exchange' banks through a historical accident and whose name is a mis-description, deal not only with foreign trade, but with every branch of what has been called commercial banking. They have also been known to give cash credits and overdrafts to industrial concerns on adequate security. What earthly advantage is therefore gained by a classification, which is merely an enumeration, except to emphasise the English doctrine of what commercial banks must not do?

It may be noted that there is no law prohibiting a bank from doing any particular kind of business permitted by its Articles and Memorandum. It is notorious that sections of the Imperial Bank Act are sometimes evaded in fact, though complied with in the letter, when the Bank authorities feel that there is a good enough and safe business for them to do and when they do not want to lose it. On the other hand it is a matter of common practice for example where the bank accepts as additional collateral, documents of real property or any valuable assets, which would strengthen the bank's position in regard to a loan or overdraft. It can be hardly said that there is in practice any very rigid line corresponding to this classification. No bank would let the business of one of their old and good clients go out of their hands, if the client is willing to put it in their hands, whether it is one kind of business or another.

116. Capital, Reserve, Deposits, and Cash Balances of the Principal Indian Joint-Stock Banks on 31st December each year:

Class A.—Banks with capital and reserve of Rs. 5 lakhs and over.

—	Number of reporting Banks.	Paid-up Capital.	Reserve.	Total.	Deposits.	Cash Balances.
		Rs. (1,000)	Rs. (1,000)	Rs. (1,000)	Rs (1,000)	Rs. (1,000)
1870	2	9,83	1,82	11,65	13,95	5,07
1880 . . .	3	18,00	3,11	21,11	63,37	16,63
1890	5	33,50	17,59	51,09	2,70,78	55,79
1900	9	82,12	45,60	1,27,72	8,07,52	1,19,04
1905	9	84,57	77,82	1,62.39	11,98,92	1,73.50
1910	16	2,75,66	1,00,55	3,76,21	25,65.85	2,80,25
1915	20	2,81.39	1,56,65	4,38,04	17,87,27	3,99,41
1916	20	2,87.36	1,73,66	4,61,02	24,71,05	6,03,49

—	Number of reporting Banks.	Paid-up Capital.	Reserve.	Total.	Deposits.	Cash Balances.
		Rs. (1,000)	Rs. (1,000)	Rs. (1,000)	Rs. (1,000)	Rs. (1,000)
1917	18	3,03,70	1,62,99	4,66,69	31,17,01	7,64,84
1918	19	4,36,45	1,65,59	6,02,04	40,59,48	9,48,58
1919	18	5,39,07	2,24,27	7,63,34	58,99,47	12,16,63
1920	25	8,37,02	2,55,46	10,92,48	71,14,64	16,30,70
1921	27	9,38,80	3,00,81	12,39,61	76,89,63	15,65,90
1922	27	8,02,24	2,61,65	10,63,89	61,63,86	12,03,88
1923	26	6,89,05	2,84,39	9,73,44	44,42,82	7,37,01
1924	29	6,90,55	3,80,39	10,70,94	52,50,52	11,29,70
1925	28	6,73,00	3,86,64	10,59,64	54,49,56	10,09,55
1926	28	6,76,34	4,08,05	10,84,39	59,68,02	9,11,64
1927	29	6,88,70	4,19,35	11,08,05	60,84,11	7,69,86

Class B.—Banks with capital and reserve between Rs. 1 lakh and less than Rs. 5 lakhs.

—	Number of reporting Banks.	Paid-up Capital.	Reserve.	Total.	Deposits.	Cash balances.
		Rs. (1,000).	Rs. (1,000).	Rs. (1,000).	Rs. (1,000).	Rs. (1,000).
1915	25	45,38	9,73	55,11	91,37	20,01
1916	28	51,77	11,50	63,27	1,01,23	16,76
1917	25	44,16	10,24	54,40	99,20	20,42
1918	28	48,65	14,43	63,08	1,55,35	36,90
1919	29	53,11	21,86	74,97	2,28,49	53,71
1920	33	61,42	19,95	81,37	2,33,46	41,91
1921	38	77,05	23,23	1,00,28	3,26,02	43,52
1922	41	83,00	27,65	1,10,65	3,37,89	56,02
1923	43	81,14	30,20	1,11,34	3,26,50	61,47
1924	41	73,65	34,34	1,07,99	2,69,06	35,14
1925	46	80,79	37,70	1,18,49	3,41,40	67,89
1926	47	86,22	39,72	1,25,94	3,46,97	82,14
1927	48	84,95	37,25	1,22,20	3,45,58	52,26

The figures for banks with capital and reserve amounting to less than Rs. 1,00,000 were not available, which is a pity. But the general fact is known that the number of such banks is considerable. The above tables were taken from the " Statistical Tables relating to Banks in India " 1927-28.

117. It is the Indian joint stock banks of the smaller size, which are both sources of local pride as well as local help, and it is their fortunes generally, which will determine the future of banks in India, but something may be said with regard to the " Big Five ". These are, the Central Bank of India, the Allahabad Bank, the Bank of India, the Punjab National Bank, and the Bank of Baroda. The Central founded by Sir Pherozeshah Mehta has absorbed the Tata Industrial and has flourished in spite of attacks and runs brought about by hostile parties. The Allahabad Bank, as will be indicated under foreign banks, has been bought out and controlled by foreign interests. Its classification, therefore, amongst Indian joint stock banks is merely formal, because it is registered in this country. The Bank of India, which is an excellent institution, has not gone in for a policy of branch expansion generally, and one cannot help remarking about this bank, in contrast with all the other Indian joint stock banks, that the superior personnel not only in the General Manager, but in several posts after him, is entirely foreign. This result is remarkable, when the bank is nearing its silver jubilee and when several of the Indian directors have died of old age, and a second generation of Indian directors is taking their place. This bank might be regarded as the stronghold of the belief that Indian joint stock banks cannot be run except by imported foreign supervision.

The Bank of Baroda is a bank emanating from outside British India, though its activities in British India are considerable. The establishment of the People's Bank in Northern India, which has shown a remarkable growth, might be welcomed, had it not coincided with the reduction in deposits of some of the Indian banks working in the Punjab. Both the weakness and the strength of the larger Punjab banks lie in the fact, that their interests are concentrated in the Punjab. The task of supervision is facilitated by first hand local knowledge, but economic factors affecting the province as a whole are likely to hit them more. The weakness lies in the fact that foreign banks operating all over India and the Imperial Bank, if they so chose, can hit them very hard by foregoing some profits in their province. The future of the Bank of Mysore, which occupies the next place in order, is assured, amongst other things, by a vigorous state policy with reference to economic conditions, and by a pride in the good work done by Mysoreans, in the possession of which Mysore is perhaps unique in all India. That joint stock enterprise in the matter of banks on a large scale is prominent in certain places in India and deficient in others, is not directly brought out by the statistics given, but has to be pointed out. Some provinces like the United Provinces, Bihar and Orissa, and Central Provinces, have very few banks of large size to their credit, and the same might be said with regard to some

of the bigger Indian States. The progress is uneven and the development is not in keeping with the requirements of different places, but seems to be the result on the one hand of the enterprise and energy of banking pioneers and, on the other, of the competition and rivalry, which Indian joint stock banks have to meet at the hands of foreign banks, and in some cases, the branches of the Imperial Bank.

118. It would appear strange, if it were said that the Imperial Bank of India has prevented the growth of joint stock banks, but the absorption by one institution of the funds of the state, which gave it both status and advantage in competition to the other institutions, also led to the exclusion of other banks from enjoying this privilege. When it is noted that amongst the joint stock banks in India, banks, which have been established by special encouragement of Indian States and the funds of these States, occupy an important place, this would be clear. The foremost amongst these is the Bank of Baroda. Next in importance comes the Bank of Mysore, and next the Bank of Travancore. There are also joint stock banks, which are receiving assistance from the state in Kashmir and in Indore. Several Northern India states, such as Patiala, Bhawalpur and others, have assisted the People's Bank of Northern India. Apart from the establishment of a new bank, several States are responsible for the opening of more branches. The benefit of this has also largely gone to the Imperial Bank. It has also gone to the Central Bank. The Managing Governor of the Imperial Bank would not disclose the nature of their contract with the Indian States in reply to a question of mine, but there is reason to believe that, apart from contribution towards running costs for a certain period, it involves the use of State funds.

Proportion per cent. of cash to liabilities on deposits of the several classes of banks on 31st December each year.

—	1918.	1919.	1920.	1921.	1922.	1923.	1924.	1925.	1926.	1927.
	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
I.—Imperial Bank of India.	29	31	30	19	21	18	18	21	26	14
II.—Exchange Banks—										
(1) Banks doing a considerable portion of their business in India.	20	35	30	28	19	19	20	13	14	11
(2) Banks, which are morely agencies of large banking corporations, doing a major portion of their business abroad.	44	67	58	43	33	27	31	15	17	14

	1918.	1919.	1920.	1921.	1922.	1923.	1924.	1925.	1926.	1 927.
	Per cent.	Per cent.	Per cent	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
III.—Indian Joint-Stock Banks—										
(*a*) Banks having capital and reserve of Rs. 5,00,000 and over.	23	21	23	20	20	17	21	19	15	13
(*b*) Banks having capital and reserve between Rs. 1,00,000 and less than Rs. 5,00,000.	24	24	18	13	17	19	18	20	24	15

The cash position of the ' Exchange ' banks has deteriorated in recent years. Its significance with reference to deposits is considered under the chapter dealing with foreign banks.

119. The cash position of the Indian joint stock banks taken as a whole cannot be considered unsound. The reduction in cash holding might be explained, and perhaps fully justified, by the consideration of many factors. We had not before us full material to go into the examination of this question. The factors are, whether there has been a substantial change in the relative proportions of current accounts, savings bank accounts and fixed deposit accounts, the requirements for cash in respect of each of which are in banking circles considered to be different. When the receipt of deposits is spread out over many areas far apart, and when banks have confidence that such deposits will be renewed, when there is a legitimate expectation of a constant flow of funds into banks from new sources, and when public trust is established, there will be some justification for banks reducing the amount of cash, which they carry. It is possible that the more important factor is the increased amount of holdings by banks in government securities. The establishment of forward market in government securities has assisted not merely in maintaining the price, but also in making it possible to effect sales of government securities without serious loss. This is altogether apart from other factors, which have rendered the government securities market extremely sensitive to sales by banks. There is also the much more established practice and expectation of loans being given by the Imperial Bank against government securities. The yield on government securities, on the one hand, in contrast with the total loss on the maintenance of cash is a business factor, which no one would blame the banks for taking into consideration. A larger holding in government securities has, however, hit the Indian joint stock banks in another direction, *viz.*, the capital loss. The facility of rediscount of bills, which in prac-

tice does not exist at the moment, but which the establishment of the Reserve Bank would create, would greatly assist Indian joint stock banks and strengthen their position without material addition to the cash, which they carry with them at present.*

120. The total number of bank branches in India will be seen from the following table:—

	Head Offices.	Branches.
Imperial Bank of India	3	165
Foreign Banks	...	88
Allahabad Bank	1	32
Indian Joint Stock Banks . . .	121	374
TOTAL .	125	659†

The above figures for 1927 would include branches of Indian registered banks operating in Indian States, but it is not clear whether they include also institutions registered and working in the States. In any case this gives to the Indian population a bank for every 440,000 people. Out of these the branches of the foreign banks and the Allahabad Bank, which is a foreign controlled bank, cannot be said to be a part of Indian banking system proper. It must be further noticed that these bank branches are not evenly distributed, and there are several urban places and wide areas containing great population, which are altogether uncovered. The distribution is uneven, apart from the total volume of banking branches being small. In England and Wales, there is a branch of a bank for every 4,500 of population, and in the United Kingdom it is one branch for every 3,500. In 1927-28 the Bankers' Almanic shows the following position:

	Bank offices.
United States of America	25,000
Great Britain and Ireland	13,100
France	4,400
Germany	3,100
Belgium	1,200

CAUSES PREVENTING GROWTH OF INDIAN JOINT STOCK BANKS.

121. If these results are considered unsatisfactory, the causes leading to these results need enumeration and analysis. It is from the examination of these causes, that remedies could be devised.

* The Central Areas Committee have noted that in the case of Indian joint stock banks, "the general tendency is to avoid lending against mortgages." In recent years disinclination on the part of Indian joint stock banks to lend against mortgages of real property, factory blocks, etc., has been greater, but no figures were available. This would affect favourably their liquidity and cash position, if their withdrawal from such business is general and considerable.

† These are located in 339 towns against 185 in 1919. Note that the number of towns in India is about 2,300.

Hoarding and Direct loans to trade and industry by deposits with firms or companies.—The position of hoarding is examined in paragraph 344 and the question of direct deposits is dealt with so far as industry is concerned in paragraph 321. There would be considerable deposits with what are called merchant bankers, *i.e.*, substantial and responsible parties, who have moneys placed with them for safe custody, whose banking business is extremely limited, but who are engaged largely in trade. This is not so much a cause preventing the growth of banking as the result of the absence of banks in mofussil places. Even when there are banks, information about them and confidence in them has not come to be established in the minds of certain classes. Often those, who deposit their money, have the notion of safe keeping and they are friends, relatives, or subordinates, who have means of knowing something about the affairs of the firm. On the amount of such deposits, no information is available, but collectively they must be considerable. They reflect not only the dearth of banking, but the dearth of suitable investments understood by the people, in which these moneys could be kept, and from which these moneys could be realised as and when the occasion requires. There must be very large deposits of this kind. It is an inevitable phase of the transition, through which India is passing. It will tend of itself to diminish, as banks grow and new forms of investments are created, in which the public have confidence and which they are encouraged to hold in preference to the existing vogue of deposits with reputable parties, who are not bankers.

122. *The deterrent effect of bank failures.*—Credit is a very delicate plant, and those, who have denied to themselves the use in the present, of money, with a view to utilise it in the future, cannot be blamed, if they show apprehension with regard to the safety of their funds, which may sometimes strike the disinterested onlooker as excessive. The failure of Arbuthnot and Company in Madras "which caused calamity in almost every household in South India"* would be paralleled in its ecects by other failures, such as William Watson & Co., the Indian Specie Bank, and the Alliance Bank of Simla. Humbler institutions have failed and affected equally disastrously humbler individuals. I regret that the Committee did not investigate the question of the total bank failures in this country since the establishment of Government by the Crown, and the amount of money that was lost in these failures. I admit that it would be more in the nature of historical research, but, had this research been made and had the results been available, it might have disclosed several facts. It might have pointed out whether the bank failures have been greater and more disastrous in India, of banks under European management, or of banks under Indian management. It might have also brought out whether they have been in excess of similar failures in other countries in the early period of the growth of banking on modern

* "Banking in India" by C. Gopala Menon ("Indian affairs," December 1930).

lines. On both these questions my personal feeling is that the failures under Indian management have by no means been greater or more disastrous, and I also feel that India has not passed through an excessive death rate in banks compared to other countries. It is a pity that these views could not be established on the basis of a definite statistical enquiry. It will be very helpful if this position comes to be examined by economic departments of several Indian universities, because it would give grounds for hopefulness with regard to future banking progress in India. It will remove pessimism with regard to the success of banks in India under Indian management.

123. How misleading prejudices are being built up against Indian enterprise in banking, may be seen from the following quotation from the "Banker", a leading Banking Magazine in the United Kingdom, dated January 1931.

"In the last ten years laxity in regard to advances has caused the failure of over 100 Indian joint stock banks. Nevertheless Indian depositors are still easily tempted to place their funds in unsound institutions."

The figures of failures, which are available to me at the moment, are between 1918 and 1927. During these ten years the number of Banks, that failed, was as follows:—

Year.	No. of Companies.	Authorised.	Subscribed.	Paid-up.
1918	7	2,09,49,970	4,85,651	1,46,185
1919	4	52,50,000	6,47,185	4,02,737
1920	3	10,40,000	7,67,000	7,24,717
1921	7	70,40,000	5,80,965	1,25,329
1922	15	10,15,55,000	27,25,744	3,29,991
1923	20	21,86,89,995	9,92,36,480	4,65,47,325
1924	18	6,30,30,925	26,46,370	11,33,623
1925	17	1,89,80,000	25,41,695	18,75,795
1926	14	70,80,000	7,05,815	3,98,145
1927	16	69,30,000	6,88,372	3,10,518
Total	121	45,05,45,890	11,10,25,277	5,19,94,365

"Statistical Tables relating to Banks in India," page 21, for 1927-28.

The gross figure of paid-up capital for 1923, which is Rs. 4,65,00,000, strikes one and needs explanation. This is accounted for by the paid-up capital of the Alliance Bank of Rs. 88,94,000, the Tata Industrial Bank of Rs. 2,26,00,000, and the Calcutta Industrial Bank of Rs. 79,53,000. It is noteworthy, that, whereas in the case of the Alliance Bank, whose shares were quoted in 1922 at Rs. 290 per share, the shareholders got nothing, and the depositors got, through the liquidation, something like twelve annas in the rupee, in the case of the Tata Industrial and the Calcutta Industrial Bank, the creditors were satisfied in full and the shareholders did not lose everything. When a foreign critic, therefore, draws the moral, warning depositors from putting their money in Indian banks, it would be good for him to remember, that it was in a bank, which was got hold of by alien adventurers in this country, that the public lost most in this year. For the rest of the period, the figures are extremely modest and would not justify any alarmist cries being raised against Indian joint stock banking.

124. Amongst the causes of the failures in India, one may be mentioned, which has no connection with banking, and that is the unfamiliarity of the public with joint stock enterprise as such. Joint stock enterprise under limited liability was a new institution in India. Neither shareholders nor directors, nor managers and managing agents, nor auditors, fully realised their responsibilities. Many joint stock companies have got into difficulties on this account. The difficulties of a bank working under the joint stock principle affect a much larger number. They deter not merely the investment in a similar field by shareholders, but the securing of deposits, *i.e.*, securing of working capital, without which banks cannot function. The primary business of a bank being to lend out not its own, but other people's money, on sound lines, the deterrent effect on depositors through the failure of a joint stock bank would be fatal to progress.

The Bombay Shareholders Association brought out from liquidation reports of several banks that had failed, points leading to the need of regulations in certain directions. The Committee were not able to examine these and other liquidation reports with several High Courts with a view to bring out the causes of bank failures, technical and financial.

Fortunately for the progress of banking, public memories are short, and the passage of time restores public confidence in banks, which is at the moment shaken by a bank failure. Sometimes depositors split up their money amongst several banks as a means of safety. Sometimes they put their money directly with firms and industries, whom they know. In some cases the money is diverted to the purchase of land and property. In some cases it goes into Government savings banks, municipal bonds and other investments.

A bank failure is of necessity much advertised. It immediately helps some institution like the Imperial Bank, to which the

depositors turn, and it immediately penalises some Indian joint stock banks, in which deposits are not renewed. But amongst its more permanent effects is the discouragement of the entrepreneur, who would start new banks, and the discouragement of shareholders, who would be called upon to invest in new banks. Bank shares are a peculiar class of investment. Banks, that have prospered in the country, have given anything from 6 to 16 per cent. and the growth of their reserves has brought about a premium on these shares. Banks, that have failed, have generally meant a total loss to the shareholder. The bank share has thus come to be regarded as a highly speculative share. The whole thing works in a vicious circle. If failures were less, there would be more banks, and there would not be this wide divergence in the safety of the investor's capital and in the return to him. This point is important with regard to the remedial measures, which are suggested elsewhere.

125. *The attitude of Government and public authorities.*—Opinion in Government circles and action on the part of public authorities which have in the past been predominantly British. Without any desire to drag in political considerations of any kind, it may be mentioned that Indian efforts in the field of banking have seldom been viewed with enthusiasm and have been generally regarded with suspicion in official circles. It is possible that the withering effects of opinions regarding Indians held in high quarters may not have been realised or intended. But such effects were there. It is possible that official opinion was derived from association with European bankers or with the non-Indian superior staff of the Imperial Bank. It is possible that official opinion was based on ignorance or on prejudice, or that it was merely dictated, so far as the care of public funds was concerned, by a wise spirit of caution based on actual experience of the failures of Indian joint-stock banks in the past. As I said before, I have no desire to bring in political considerations, but the enumeration of the causes preventing the growth of banking in India on modern lines would not be complete, unless the attitude of officials as a class towards such institutions were definitely pointed out. It has come up in practice with regard to the care and custody of municipal funds, funds of Court of Wards, encumbered estates, minors' trust funds and university funds. I would again say that it is not that the discretion vested in officials was abused, but that it was used with undue severity, which led to a generalisation on the part of the public and of the banks, which were aggrieved, that official opinion was generally hostile. A specific case was put before us by the Patna Bank, which would be found in the evidence illustrating the way in which Indian opinion regarded the official attitude as that of discouragement rather than otherwise. There seemed to be an under-current of such feeling also in the minds of those, who are in charge of Provincial Co-operative Banks.

126. *Competition and opposition of foreign institutions.*—This matter is dealt with in detail in the chapter relating to foreign

banks and need not be gone into at this place. Briefly, it is that the most advantageous and strategic points have been held by the foreign banks. The most profitable business is carried on by them. They do not care for the less profitable, which they leave to Indian institutions, but they are watchful of every Indian institution that gathers strength and that can prove to be a possible rival. Their policy is thus the general policy of monopolists, *viz.*, give minimum service to get maximum return. Not only by direct competition but indirectly, they impede progress. The branches, that cater for the smaller place, would be small and the profits, which they would bring in, would also be small. The foreign banks would not go in for this class of business and the Indian banks cannot, because they cannot average the lean with the fat.

127. *Limited trade and business in Indian hands.*—The next group of causes would be dealt with at various places in the report. The prosperity of Indian banks is bound up with the prosperity of Indian business, both in trade and industry. It has been already examined, how the small local trader has lost ground against the representative of larger wholesale firms, how such firms have penetrated into the interior, and how they are assisted by the system of cash credit. In this respect the forces that have assailed the private banker working on orthodox lines, have also assailed Indian banks working on modern lines. There is a feeling that a larger measure of trade and industry has passed out of control of Indians. The Indian Chamber of Commerce at Calcutta has supplied valuable information as to the amount of foreign trade handled by Indians, but we had not before us the amount of trade in Indian hands before, in order to show whether it has not materially diminished. That banks prosper, when trade and industry are active, and that their profits decline, when it is otherwise, is axiomatic. Applying this to Indian joint stock banks with reference to their clientele, is not possible on a definite statistical basis, but an under-current of feeling in this direction was noticeable in the evidence placed before us, and if it is true, this factor deserves a mention amongst the causes, which have prevented the growth of Indian banking, and which would continue to militate against them in future.*

128. *Preference to Indian Banks.*—Closely allied to this, is the question as to whether such business, as is in the hands of Indians, patronises Indian joint stock banks, or gives its custom to foreign banks. The dictum, that sentiment has no place in business, is only correct as applied to individuals. National sentiment affects business in a large way all over the world. The extent, to which foreign banks act on sentiment, which secures a correlation between foreign shipping, foreign insurance and foreign banking, to the detriment of Indian enterprise, is brought out in the chapter on foreign banks. If foreign banks encourage foreign

* See Lala Harkishen Lal's introduction to Mr. B. T. Thakur's "Organisation of Indian Banking."

insurance companies and shipping companies, it stands to reason that these in their turn must encourage foreign banks. Indian firms, who are in their business obliged to deal, therefore, with non-Indian insurance companies, shipping companies, etc., would feel the pressure. Indian firms, who are in the position of brokers, agents, and who are in subordinate relation to European business houses and offices, would not ordinarily have the courage, or the inclination, to deal with Indian banks. If they could sense the feeling in favour of foreign institutions on the part of those, who were superior to them, and from whom they had to receive business favours, whether national sentiment will grow, on its own, in favour of their dealing with Indian banks, is more than can be foretold by anybody. The absence of such sentiment is undoubtedly a handicap to Indian institutions, and if it is desired that this handicap should be removed, measures would have to be taken from the top to make this possible. The question of enabling Indian firms to bank with Indian banks alone, without involving comment on the part of anybody, is one of the grounds for the suggestion, I have made, for prohibiting Indian deposits in foreign banks.

129. Amongst the *difficulties of Indian joint stock banks*, which are new in the field, may be mentioned the following:—

(1) Entry into clearing houses. Clearing houses in India are at present managed by the Imperial Bank, but they work on the basis of an Association, the decision of admission of a new party being made by a majority. At many places the majority of institutions being foreign, and therefore intolerant of Indian interests, the greatest amount of difficulties have been raised in the admission of new Indian banks. Cases of this kind were placed before us. Ultimately Indian banks do get admission, but at the most critical period of existence, if the information went out, that they were not being admitted to the clearing house, it would not help their operations.

(2) New Indian banks, particularly those that are small, cannot expect to be preferred to the older institutions, who have larger and more imposing offices, and who are lodged in premises of their own. This difficulty on the part of small and new banks is unavoidable in human nature, but it becomes a real problem, when it is a disability against Indian institutions, operating in favour of foreign institutions that hold the field.

(3) There are other directions, in which no direct evidence could be produced. There is reason to believe, that Indian institutions generally, and new Indian joint stock banks in particular, are disparaged by the superior staff of foreign institutions. There are a large number of brokers, middlemen and others, including actual and prospective borrowers and bank clients, who

constitute the medium, through which ridicule, disparagement and discouragement against Indian banks in general, and new Indian institutions in particular, are transmitted to the Indian public. This again is probably inherent in human nature, where business competition is involved, but it becomes a serious question, when the business competition is between Indian institutions and foreign institutions, and it takes this form. When a responsible bank official in a large foreign bank says a thing seriously, the amount of credence, which is put on it by the Indian public, is considerable. I regard the actual cases, that were brought before us by the Central Bank of India in the matter of their dealings in foreign exchange in Rangoon, coming into this class. Whether it is possible to devise any specific remedy, and how it could be applied in India, is a matter, which need not be dealt with here, but this deserves a mention amongst the causes, which check the growth of Indian banks.

130. The next group, which deserves mention and analysis in connection with this question, relates to the dearth of capital generally, either for bank shares or for deposits. There is a definite limit, we are told, to the possible expansion of banking in India under Indians, and this limit is set by the available funds. This is an economic limitation, and it would be examined in the measures suggested for the expansion of banking, but, with regard to the capital wanted for bank shares, it may be stated, that there are many individuals in India, large firms, and others, who have invested large sums not merely in trade and industry, but in government securities, municipal bonds, etc. It is not conceivable that, if the atmosphere of the banks were favourable, for the success, capital would not be forthcoming for a dozen new banks in India. A reference has been made before our Committee to the flight of Indian capital abroad. The difficulties of investment in new companies of all kinds, which are being registered in India, are large. But there are numerous banking institutions in this country already constituted, which are not working to their full capacity. There are many smaller banks in existence, which by their amalgamation, could offer a suitable nucleus. The idea, therefore, that banking progress in India is limited by the dearth of capital available as share capital, would not seem to be justified, at all events for the next stage of progress.

The position with regard to the deposits and working capital is examined in other parts of this report.

I have not dealt with several causes affecting the growth of banking in this country, such as a larger number of transactions being on the cash basis and a smaller vogue of the cheque habit. This is undoubtedly important. It is not merely the absence of the cheque habit, but of that familiarity with credit instruments of all kinds, which restricts the operations of established banks and

the scope for new banks. The topic is dealt with elsewhere. I have also not referred to the lack of trained bankers and competent and honest parties for running banks. With regard to the latter, it was the Imperial Bank, and, perhaps deriving the information from them, the Finance Minister dealing with this subject said that progress in branch extensions was limited by the availability of suitable men. The number of men in responsible position, on whose services call may be made, if bank offices in India were doubled, would be in the neighbourhood of five hundred to eight hundred, and I decline to believe that eight hundred more men from amongst the existing staff of banks, or from outside, competent and reliable for this purpose, could not be found, if it were intended, and if other factors permitted the doubling of the number of bank offices in India immediately.

131. *Capital.*—Before coming to the question of finding remedies, or initiating measures, which will lead to the expansion of banking, it would be useful to deal with certain general questions affecting the existence and working of joint stock banks in this country. While the expansion of banking has been considered desirable, opinions have been expressed all round of the danger to the public and to the institutions themselves, of banks started with very small capital. In Travancore, banks have been started on a capital of Rs. 1,000. Where such small banks cater for children, or for special purposes for parties with limited means and limited loans, which they occasionally require, there will be nothing to say. But, as banks, institutions with very small capital have to be discouraged. The question was discussed in the Committee and I recommend that the minimum paid up capital should be Rs. 50,000.

Travancore has been in India par excellence the region of small banks. I therefore attach some importance to the views expressed in the Travancore Report. They have reported as follows:—

"When we fix the minimum paid up capital at Rs. 50,000, the question will naturally arise as to what should be the position of the large majority of the existing banks having much smaller capital. We suggest that these banks also should comply with the provisions of the new legislative enactment, but should be given the opportunity to raise their capital to the minimum requirement within a period of not more than two years, failing which they will either have to wind up their business, or secure the statutory minimum by a process of amalgamation, facilities for which should be provided."*

The spirit of the recommendations of the Bengal Committee's report regarding the Bengal loan offices is also the same. Soundness does not lie in bulk. A bank with a capital of Rs. 20,000 may be sounder than another bank with a capital of Rs. 50,000, but those, who have to frame regulations, must be guided by general considerations, and the balance of these considerations

* Travancore Report, page 200.

points to the need of a minimum limit. In order to meet the arguments of those, who are opposed to a minimum limit, if and when there is a central banking organization charged with the functions of the general supervision of banking in a province, exceptions may be made on a definite representation and after examination of each case. It is urged that the exceptions should, however, be such, that the spirit of the regulations putting down the minimum should be observed.

132. The question of the size of the banks is materially part of the larger question as to whether expansion in banking in India should be on the basis of extending branches of large institutions, or encouragement of local small institutions. With regard to the establishment of one hundred branches by the Imperial Bank, which became part of the contract at the time of the amalgamation of the Presidency Banks, Government did recognise the advantages of the extension of banking, and took away the edge of public criticism on their action conferring valuable privileges to this bank by linking it on to the advancement of an avowed public object. The foreigners looked upon this with great disfavour, as indeed they would, on the basis, on which they were discussing, *viz.*, the state should have nothing to do with the encouragement of banking. The point was raised in the Committee's discussions several times as to whether other banks should not receive some appreciation, or some direct assistance in their policy in extending their branches. Public opinion in this country is quite alive to the need of extension and also to the fact, that such extension would do good to the country at large. A clear policy has not yet been enunciated, and it is unfortunate that no discussion took place in the Committee with regard to the advantages of a local small bank, as against a branch bank controlled from presidency or capital towns. There are many advantages in the local institutions, the biggest of which is, that it gives the local big man a stimulus to play a big role, and also engage his capital in the task. A *rais* for an important town would have little inducement, and perhaps no confidence, in shares of a large bank located at the capital of the province. Even if he became a shareholder, he would have little chance to be on the board of such a bank, as indeed the places on the board of any bank are limited in number. He would, therefore, make a struggle, if he is a banker, to exist either as an independent banker as long as he could, or he would engage in trade or industry, or such other activity as would not only find occupation for his money, but some little status, the search for which is inevitable in human nature. The task, therefore, is to direct this legitimate ambition into channels of public good.

Banking growth in other countries in the world came from the establishment of small local institutions, which later grew in size and found safety and strength through their amalgamations, when competition became acute. If it is the ambition in India to secure banking expansion, which would be parallel to such expansion in other countries, it could be achieved much more readily

by the encouragement of local institutions, than by encouragement of branches of the larger joint stock banks. In the west, there are large banks having several thousand branches, but in India the branch organization of the Imperial Bank is looked upon as a matter of wonder and pride, when it has reached the neighbourhood of two hundred.*

It is possible that local banks could be brought into existence easier, if large banks gave the necessary guidance and impetus, helped them in the matter of staff, and guided them in the spirit of a foster mother. They may even find it to their advantage to secure valuable local connections, by taking shares in such new institutions. This line of advance was indicated by Mr. Pochkhanawala of the Central Bank. I fear that the possibilities of local institutions have not been examined. Small banks, wherever they are working, are regarded as precarious and negligible. There is a lot of local sentiment in India, and parties, who will trust an institution, in which they play an important role and whose affairs they can watch, are more prone to go in as shareholders and directors than in a scheme of things, in which they become mere depositors of a branch. There is still the feeling of self-sufficiency in many parts of the country, where rich men would have nothing to do with any bank. Such men could participate in the formation and the running of a bank, which they can call their own. Better hope of expansion lies in this direction, than in the matter of branch banking. Branch banking means that the older institutions should throw themselves out in new districts, and also that new banks on a large scale should come into existence and spread their branches. It is notorious, that branches have been put, not so much with a view to finance the district, as with a view to rope in the deposits and to bring over the surplus to be employed at the centre.† Local banks could do more good to the interior than branches, provided they were helped and guided, and, above all, they had somebody to fall back upon in the event of any local stress, which they experience.

133. Allied to the question of size of a bank, is the question of costs. The Committee got no material before it, which would

* Chairman's Speech, Calcutta, Annual General Meeting, August 1921:—

"One of the burdens, which the amalgamation has hung round our necks, is the starting of 100 new branches within a period of five years..... The programme drawn out by the Central Board was for the starting of 20 new branches..... We expect to complete our first year's programme within the time allotted to us."

Sir Basil Blackett's speech at the Delhi University, 1925:—

"In view of the recent rapid extension of the Imperial Bank, it will probably be desirable to consolidate the ground gained before advancing much further."

† The Bombay Committee have also suggested that banks collecting deposits in the mufassal should also keep in view the internal trade needs of the locality. For this purpose, periodical statistics regarding the total deposits received and the total advances made by different banks in different areas should be collected and published by the Central Banking Institution.—(Bombay Provincial Banking Enquiry Committee's Report, para. 164.)

indicate whether new branches by the Imperial were paying or not paying. Nor did they have data for a comparative examination of expenses of a branch by different banks in India. I am of opinion, that the standard set by the Imperial Bank is not a wholesome model for expansion of banking. It is necessary to evolve an Indian standard of expenditure for the management of bank offices in the mofussil. At present, there is a very unhealthy spirit of copying western banks. Some of the foreign banks are maintaining in this country a standard at their several branches higher than the standard known even in the United Kingdom. A very expensive pattern is thus put before a very poor country. Slow progress on this pattern becomes the occasion for traducing Indian capacity and Indian possibilities.

The question of cost, if a branch is to be managed efficiently, must be considered in conjunction with the question of business turnover. Experience, it is hoped, will evolve in this country a standard more suited to Indian needs and Indian resources. But, branches in the interior, or, for the matter of that, local banks, which may come into existence, would have to be assured that there is enough business to pay their way. When the vogue for cheque increases and banking habit expands, this result may be expected. In the meanwhile it is recommended, that progress should be sought on both lines, *viz.*, local institutions and branch banking.

134. It was the opinion of the foreign " experts " that the ports were over-banked at the present moment. It was also expressed to us, that in the interior, at several places, there were many branches leading to a competition, which hurt the Indian joint stock banks. The question of such competition on the part of the Imperial Bank and the foreign banks is dealt with in their respective chapters. It was deplored that there were several large places, where even a single branch of a joint stock bank would serve a great public convenience. At present the expansion of branches is left to the banks themselves. Even when their attention has to be drawn to possibilities, business considerations affecting their own institution, would determine their action in opening new branches. This was regarded as unsatisfactory. In the absence of a central banking authority, who would review the field, and who would indicate at which places new branches could be opened with advantage to the public and to the banks themselves, the position must remain as it is. If, however, the encouragement of joint stock banks in opening branches becomes a definite public policy, and the work is to be done by the Reserve Bank, this complaint may be got over. Some Provincial Committees pointed out places, where a branch of a bank would do much good.

135. *The question of liquidity.*—Great stress has been laid on the question of maintaining proper liquidity by banks working in India. The importance of maintaining adequate cash arises from the fact, that a banker must meet the demand from his customer

in the case of current accounts by an immediate payment of the cheque drawn on him, and in the case of deposit accounts on due date. As a banker lays great stress on the prompt discharge of his liability by his customer on due date, so he must in turn set an example. He must, it is argued, maintain sufficient cash resources, or, have other working arrangements, by which he can meet his obligations; failing this, confidence would be lost and the deposit habit would be discouraged.

In connection with this, I have come across a very interesting situation in the intensive growth of banking in Travancore. The Travancore Report says:—

"We are told that, in Travancore, the banks are not so sensitive; nor are the public so vigilant. When a bank is unable to meet the demand made by a customer and cash his cheque, nothing happens to the bank. But such a position has told upon the growth of the banking habit. Until such time, therefore, as the banks gain the entire confidence of the investing public, the growth of the habit cannot be appreciable. The maintenance of adequate cash reserve or assets in liquid form being one of the means by which public confidence may be inspired, it is desirable that banks maintain certain ratios between time and demand liabilities and liquid assets."*

While any slackness with regard to the prompt discharge of obligation by a bank, is to be deprecated, it is noteworthy, that it is largely a matter of public opinion. Several generations have passed since banking developed in western countries on modern lines, and delay or difficulty in cashing a cheque by a bank has become unthinkable there. The maintenance of the necessary liquid resources has become axiomatic. In India also, it would be the ideal to reach.

136. In order to reach this, various methods are suggested, not the least important of which, is the system of a Bankers' Bank, so that while the bank would carry with it as cash, what it might ordinarily require, it should have a 'case of need' in the central institution, to whom it can appeal for more cash. Ultimately, it would resolve itself into a matter of cost, and I have dealt with this question in considering banking costs. The central institution would work on the basis, that abnormal requirements of banks would not concentrate on the same day and at the same time. This expectation is perfectly justified and without any serious additional cost, this machinery would certainly serve the purpose.† I have not been able to consider fully the effect of what may be called 'limping' current deposits. In the case of the post office savings bank, notice is required for withdrawals, and withdrawals can take place only on a limited number of occasions during the month. But the cash position of postal banks is mixed

* Travancore Report, page 198.

† The Travancore Report has suggested a Central Bank with this idea. Mr. Sarker's note relating to the Bengal Loan Offices has also got this fundamental idea.

up with the cash position of the post office generally, and of governmental finance, and does not afford, therefore, the means of ascertaining the exact difference. Where banks take savings bank account under varying set of rules, involving some restrictions on the amounts of withdrawal and the occasions for withdrawal, the cash requirements would undoubtedly be less than in the case of current accounts. These deposits occupy a position between the current on the one hand, and the fixed deposits on the other. Even here the cash resources of banks are lumped, and neither the banks nor those, who wish to study the position of banks, would be able to say with any degree of exactitude, how much economy in the maintenance of cash is effected by this method. I am opposed to the use of the term " savings bank deposits " by all and sundry,* but that does not mean, that banks may not be free to institute a system of intermediate deposits with restrictions on withdrawals, or requiring notice. If there are no restrictions on withdrawal, and if there is no question of notice, another variation of it would undoubtedly be, that in the case of these intermediate deposits, banks would pay fully and at once, if they like. Customers would have to take the chance of earning the interest on the basis, that they may have to wait for their cheque being cashed for one, two or three days. Whether such a system will assist the banks in drawing more deposits, and to what extent it would reduce their requirements of cash and, therefore, the cost of keeping such cash, are questions, which we had no opportunity of examining, and, while I know that I have not solved the questions, I shall be content with having raised them.

137. *Commercial Banking : Short term loans.*—One of the things, on which the foreign " experts " have laid very great stress, is the need of confining commercial banks to short-term advances. In my opinion they have over-emphasised this counsel of perfection. They have gone to the extent of suggesting, that all long-term loans must come from special institutions and that the requirements for industry except small seasonal needs, must be met from debentures. They may have the justification in the recommendation about the debentures from the experience of other countries, where the savings of the people are large, where the debenture as an instrument of saving is understood and is sought after. But in India it will be many years before this position can be reached.

The same vicious distrine under the term " short-term investments " has held the ground in India through another cause, and, that is, section 1 (*a*) of Schedule I—Part II of the Imperial Bank Act, which prohibits the Bank from lending out for more than six months. I have reason to believe that this clause is in practice evaded by the Imperial Bank, many of whose loans are renewed. In Western countries the loans of commercial banks are for short period in form but without rigidity. Consciously and deliberately, banks play a very important part in the financing of industry and they engage the funds not by mechanical rules of period, but,

* *Vide* paragraph 351.

according to the needs of their clients, so long as they feel safe about the ultimate return of their money. What happens in practice is that the deposits, which are short-period, are also renewed. Similarly, loans, which are on the face of them, short-period, get renewed. Many authorities could be quoted to show, with regard to banking systems in many countries, that an undue emphasis, in practice, on short-term loans would defeat its own object, and considerably detract from the service, which banks can render to trade. The following from a recent authoritative work gives the experience of the United States:—

> "The American tradition holds that commercial banks should finance only short-term, self-liquidating transactions and should leave the provision of permanent capital to specialized investment institutions. The theory is that, since the liabilities of the bank are demand liabilities, the assets must largely consist of cash, and that short-term, self-liquidating paper is the most convertible and manageable earning asset. This traditional theory bears the approval of state and federal law, and the banking system conforms nominally to the theory; but an examination of the business (banking and investment) situation reveals the following facts:—
>
> (1) No small part of commercial loans are provisions of permanent investment capital.
>
> (2) Industrial loans which finance the purchase of raw materials and labour to make a marketable product are quite as good bank assets as commercial loans to finance the marketing processes.
>
> (3) The so-called self-liquidating loans are largely liquid only with respect to individual banks and not to the banking system as a whole.
>
> (4) Liquidity is mainly a matter of high organization of the market for credits and of the markets for the various forms of collateral.
>
> "*Extensions of Investment Credit.*—To the degree that banks invest in stocks and bonds of corporations, they contribute fixed capital to enterprises. The purchase of securities is the practical equivalent of loaning funds; loans to purchase securities which are then pledged to secure the loans are practically vicarious purchases of the securities. That there is a marked tendency for commercial loans to become continuous and permanent is due to the fact that production tends to become more and more capitalistic and continuous operation more and more necessary for efficiency, while improved facilities in distributing products lengthen the period of consumption and reduce the seasonal feature of business. Probably at least a fifth of commercial bank loans are now for investment purposes.

" The one-time practice of banks of insisting that their borrowers " clean up " their loan account at least once a year has nearly ceased, except in lines of business having one or two definite seasons, and loans are indefinitely renewed time after time, or if borrowers are required to " clean up " they may borrow at one bank to " clean up " at another. Large borrowers sell their notes widely over the country through note-brokers; to pay a lot of notes maturing and due to holders in one section of the country, another lot will be issued and sold either to these same holders or to purchasers in other sections; thus the banking system as a whole supplies permanent working capital. The individual bank, however, may decline to renew a loan or to purchase the renewal paper, and thus not itself provide permanent capital.

" When the whole banking system is considered, it is clear that commercial paper is only to a small extent self-liquidating. The banks renew loans freely, as just noted; their regular customers depend upon this accommodation, and large contraction or refusal to renew loans is quite impossible, especially in time of panic. When a borrower becomes strong enough to borrow through sale of his paper widely over the country and any holder refuses to purchase the renewal paper, he can borrow from other banks. The holder bank may also at any time sell the paper to another bank. Thus rediscount gives liquidity, but rediscount is simply a shifting of assets as between banks and as between forms of assets. One of the specific purposes in developing the federal reserve banks was that of providing central banks where paper holdings of needy banks might be converted into cash funds by this process of shifting assets. The capacity of the federal reserve banks to liquify by rediscounting comes through their ability to tap unused reserves and to create federal reserve notes, which in the tills of the banks constitute not only a paying medium but also an actual reserve, although not termed " reserve " by the law.

" *Loan Ratios as Business Barometers.*—The sum of a bank's investments in securities and of its loans and discounts, represents its contributions of capital to business. The greater part of these funds was originally deposited as cash in the bank; the rest has been created by the bank. Bank notes and deposit liabilities have been created and exchanged by the bank for various credit items of borrowers, while the borrowers possessing these bank notes, deposits, or actual government money, have been enabled to procure materials, labour, tools, plant, transportation, and the like. The funds put into invest-

ments and some indeterminate proportion of the loans (and discounts) represent contributions of permanent capital. The proportion of the loans which constitutes permanent advances of capital ranges in all probability from 20 to 50 per cent. The tendency is to increase.

"The ratio of investments, *plus*, say, 30 per cent. of loans, to total assets is therefore a measure of the degree to which a bank contributes permanent capital to business."*

138. Frozen advances are an evil, but in determining fundamentals, one must not ignore an occasional root test such as this: Can the banking system as a whole claim in any country, that they can withdraw their moneys, which are ostensibly lent out for a short period? The answer is in a definite negative. It does not, therefore, prove that an individual banker should be lax, or that he should not test every one of his loans and, in the case of some of them, insist on immediate payment, the moment he has any reason to feel anxious. The elimination of weaker borrowers and the substitution of new and stronger ones constantly goes on. It must go on with regard to an individual bank, on whose part the greatest amount of vigilance is called, for drawing to itself the better and safer accounts and eliminating the weaker ones. Sound banking requires this vigilance, but the laying down of a doctrine for the banking system of the country as a whole is mischievous in the extreme. Progress will not be secured in Indian banking by deliberately setting the banks on the steep path.

It has been authoritatively stated that early European banks in India lent out for long periods and it was by the enterprise of these banks in making such loans, that European trade and industry of this country prospered and showed good results. It is necessary to lay down some standards, but not impossible standards, and the interdiction to banks, consciously to make loans, which would be recovered not in six or twelve months, but in two and three years even under absolutely safe conditions as to security, is not justified. This does not again mean that there should be no relation in volume between such loans and the total working capital of the bank or that there would not be need to scrutinise much more carefully loans extending over some time, since the change of economic conditions weakening the borrower, or the enterprise, is more likely in the long period than in the short one. The rule, which makes self-liquidating trade bills the best investment for a bank, has reference more to liquidity than to soundness and it would be a confusion of ideas, if other considerations are all set aside and an attempt made to put before the Indian banking world models, which do not exist in reality.

139. Banks have to provide for two things, *viz.*, their ultimate solvency by taking care that the loans advanced by them will be recovered. This is elementary. This judgment is wanted of banks.

* "Banking Principles and Practice" by Westerfield.

They have to provide for this by judging the credit of their clientele and their resources carefully when they give clean advances, and, if they are not sure, by taking adequate securities. No one from outside can help them, if they fail to do this, but the second requirement, *viz.*, their ability to meet any abnormal, sudden or emergent demand is one, in which they are entitled to help from the Reserve Bank. Securities, which they possess, if they are adequate and sound as banking securities go, should be converted promptly into cash to help the institution to meet a crisis. In India in this respect the position has not been satisfactory. Large sums have been locked up in government securities on the ground of liquidity, and complaints were heard, that even against government securities, accommodation was not always readily and fully forthcoming from the Presidency Banks before the amalgamation, and from the Imperial Bank thereafter. Another complaint was, that, if accommodation was given by the Imperial Bank against government securities to a particular bank, the money was not made available except to the head office of the borrowing bank. These, sometimes, did not point to the Imperial Bank acting as the Bankers' Bank though the Imperial Bank denied the allegations.* No useful purpose will be served by a discussion of this here, since the discussion has already taken place regarding the establishment of the Reserve Bank. If, however, there is going to be any delay, the exact obligation, which the Imperial Bank has towards the joint stock banks in this country in this direction, should be defined so as to leave no doubt whatsoever. The fact, that joint stock banks in this country should receive accommodation in an emergency against Government paper only and against nothing else, explains one of the difficulties in the way of bank expansion. The Allahabad Bank, in their evidence before the Royal Commission on Currency in 1925-26 made it clear that there was a prejudice against rediscounting of bills by banks with the Imperial Bank. The existence of similar prejudice, which would reflect on the standing of the bank, was also disclosed in our enquiry. The Imperial Bank further does not give this rediscount either freely, or at a rate different from the rate, which they charge to their own constituents. An important client of a joint stock bank can get his bills discounted at the same rate, at which the

* "At present, the Imperial Bank is not a true Central Bank, although it has, with its predecessors, a long and honourable record of public service. It has not the management of the note issue, which is still in the unsuitable hands of Government; and it must, as a commercial bank, compete with the other trading banks. There is plenty of evidence that it actually does so. Moreover, its Bank rate is not completely effective and depends too much upon the exigencies of Government finance. There is little cohesion between the Imperial Bank and the other elements of the money market, especially as the rediscount of hundis is accounted a sign of weakness. In times of stringency, the Exchange Banks, whose Head Offices are all abroad might (and in most cases do) look to London and not to the Imperial Bank for assistance, and in any case the constant availability of this assistance would at all times make it difficult for the Imperial Bank to bring the market under its control by any of the devices known to the more fortunately placed European banks." ("The Imperial Banks," by Baster, pages 193-194.)

bank itself can get it. This is not a desirable position and it cannot encourage the habit of rediscount by banks, which in its turn has a very great bearing on the use of bills in this country, in preference to the cash credit and other forms of accommodation by a banker to his client.

It was the question of liquidity, which encouraged one of the Provincial Banking Committees to suggest that facilities for securing cash on the equitable deposit of documents with banks should be available to private bankers. The use by a banker, of what he keeps aside as cash, is not very frequent and the call for such cash on his part on the central institution would be equally rare, but the cash has to be there in order to maintain the reputation of the institution. The keeping of this cash is a costly process and to the extent, to which the central institution will relieve joint stock banks in this manner, difficulties experienced by joint stock banks now would be reduced. The support by the central institution is to some extent in the nature of the support, which the military authorities give to the civil authorities, seldom required, but it must be always there.

140. *The State policy in respect of joint stock banks.*—It is curious that Indian joint stock banks enjoy no privilege of any kind, no assistance from the state, and no preference. The only concession, which they use, is the concession in the matter of remittance given by the Imperial Bank, but this they share with all foreign banks in the country. " Laissez-faire " and leaving alone private enterprise to the comfortable doctrine of self-help, could not have gone farther, than it has done in India with regard to Indian joint stock banks. Now that the Banking Committee has been appointed to examine the position and the defects of this policy have been considered, the question arises: will the state definitely declare it to be an important purpose and object to encourage the growth of Indian joint stock banks? I recommend that this should be done. It would improve the atmosphere very greatly. It would put heart into those, who are carrying on an unequal struggle at the moment. It is also necessary because of the position, in which the Indian joint stock banks find themselves. Economic life is not static. It is dynamic. There is always a movement, however small it may be, in one direction or the other. Foreign banks have grown in number and in strength during the last few years in this country. To that extent, have they covered a profitable field, which might have been open to Indian banks? Indian banks have not expanded. The argument for substantial concessions to joint stock banking in India may be examined with reference to the basis, on which such concessions are given to the co-operative movement. The fundamental claim of the co-operative movement for assistance and encouragement has been on the ground, that it will relieve the agriculturists from the burden of heavy interest charges and render his position sounder, increasing production and eliminating the need for special expenditure in times of famine, etc. In other words, the agriculturist, who is an

important tax-payer, is going to be helped and if his position is improved, it is good for the position of Government revenue, which depends on him. The same logic may be applied to agricultural and commercial classes, who would be served by the joint stock banks.

141. The moral ideal in the co-operative movement of mutual help and reliance, and of the combination of one class of persons to eliminate the middleman, is great. It has to be seen, to what extent it has been realised, and also how far the search for this ideal has led the movement sometimes to disregard the more essential business and economic principles. A joint stock bank, whatever else may be said against it or about it, has to run on business principles, or to pay the penalty at once in a definite form. Except its own directors and managers, it has no mentors outside, and no section of the community is particularly interested in its success. The state has not yet acknowledged, even in principle, the need of assisting this particular branch of enterprise. The expansion of Indian banks has been relatively small. It would be legitimate to infer, that against the competition, which they have to bear, they are receding. The moment has, therefore, come for the formulation of a definite policy in this direction, and a declaration would be welcome.

Such a policy exists at the moment in relation to co-operative banks. Diverse forms of assistance and concessions are given to these banks, and some more have been recommended by several Provincial Committees. If it is recognised, that the growth of joint stock banking in this country will help the economic progress of the country, similar concessions should be extended to them. Another ground for extending some privileges to the Indian joint stock banks is that, apart from the regulation, to which they are subjected at present, many new forms of regulations are being imposed on them. These are being imposed on public grounds and on the ground that a bank is not an ordinary enterprise, but a public utility company, that the interests of the shareholders may be important, but the interests of the depositors and the public are also important. If this is so, those, on whom new disabilities and restrictions are being imposed, may claim help. I summarise the concessions, which I suggest should be made available to the Indian joint stock banks. Some of them are examined in detail in the chapter dealing with the Reserve Bank.

(1) Free transfer of funds between those centres, where the Reserve Bank has a branch.

(2) Remittance concessions of the same kind, which the co-operative banks enjoy at present.

(3) Freedom from stamp duties to the extent to which it is enjoyed by the co-operative banks.

(4) Facilities for opening new branches on the same basis, on which such facilities have been given to the Imperial Bank of India in the past, or on the new basis, which

may come to be fixed for this purpose by the Reserve Bank Board.

(5) Facilities for rediscount of bills with the Reserve Bank, benefit of special rediscount rate under the bank rate, and for securing help on *pro note* against suitable collateral.

(6) Exemption from super-tax for a period of five years in the event of two small banks amalgamating.

(I would not press for the exemption from income tax to be extended to the Indian joint stock banks on the same basis, on which the co-operative banks at present enjoy an exemption.)

(7) Restriction on the opening of branches in the interior by foreign banks.

(8) Restriction on the placing of deposits by Indian-born persons and Indian joint stock companies with the foreign banks.

142. On the wisdom and policy of giving these concessions, there will be many comments. Anticipating some of them, I may say that the position of India is most peculiar. No country in the world finds itself with such a large part of its important material activities handled by foreigners and with a strong position, in which foreign banks have entrenched themselves. Either this country must emerge from this position, or leave matters, as they are, to drift. If nothing is done in the banking field by the state in India for the next ten, or twenty years, I have no hesitation in saying that Indian joint stock banks will exist only on sufferance. They will exist in a moribund condition. In their backwardness and in their peril, will be the backwardness and peril of this country. Even this position will only arise, if they will survive the strain, which they have already begun to feel.

While there may be many, who will support a policy of encouragement in some directions, they will cry halt at what they will regard as the multiplicity of concessions. The important thing in this connection is to take measures, which will be effective, which will go to the root, and which will really help. There will be enough time after such measures are taken, if the banks grew fat on the great advantages, which in the opinion of some people, are being given away, to watch them and to secure the benefit of some of these advantages for the bank's constituents, or to reduce the concessions given, or to increase the taxation, which will fall on the banks. It is better to proceed on these lines than to proceed on a line of extreme caution, whittling down advantages, till only those remain, which sound good on paper, but which in practice do not help. Let the banks make profit. It is only when some banks make big profits, that new banks will be started and in the competition between these institutions for rendering service to their clientele, the excessive profit will disappear. I conceive this method of advance as preferable in all respects to the method,

which involves just a tinkering with the structure, lip sympathy and benefits, which sound well but do not sustain Indian institutions in their fight against foreign banks.

143. *Possibilities of expansion.*—All the measures indicated in paragraph 141 are calculated to create an atmosphere of hopefulness for Indian joint stock banks. The possibility of running banks at a profit arises only after the possibility of existence and survival is assured. I do not wish to take an unduly alarmist view, but the nature of the competition, which has been disclosed and complained of in many places, would point out to the danger, which Indian joint stock banking carries on its head. It is essential that this danger should be warded off. After the relief, which Indian banks feel from this situation, is realised and after it has been established that banking always has been, and has now even for Indian concerns definitely become, a profitable business, expectations of expansion in many directions may be realised. Some of these directions may be here reviewed. Several Provincial Committees spoke of the possibilities of private bankers registering themselves as joint stock banks. The position of joint stock banks, as it is to-day, is by no means rosy, and there is little improvement, which a private banker could secure, by becoming a joint stock bank. He would have to pay, in the first instance, heavy charges at the time of the registration of the company, and he would have to keep his accounts in a prescribed form. His affairs will receive publicity not necessarily helpful, because it would not be balanced by any advantages from any direction. With the concessions attached to joint stock banking, recommended herein, some private bankers might turn themselves into joint stock banks, or a group of them might start a bank to secure benefits and yet retain their separate identity. Whether the " Kommandit " principle, which gives limited liability to shareholders and leaves unlimited liability for the principal partner, will come into vogue or not, it is very difficult to say. India is primarily a land of conservatism, and until some very enterprising people set up the model, it is not very likely to be copied. Local sentiment, with or without the guidance and help of a larger bank might also bring about new local banks with modest capital. The greatest amount of guidance and sympathy would have to come from the Reserve Bank Board, and large results in this direction could not be secured unless that Board is imbued with a definite purpose and until, therefore, such purpose is embodied and declared in a definite policy of the state.

Amalgamation of smaller institutions, which already exist, particularly in South India, might help, provided Government and the authorities of the State, within which these banks exist, take a hand in the matter. Until a third party negotiates and establishes a fair basis for amalgamation, amalgamations cannot come about. One bank might absorb another by buying it out, but voluntary amalgamations have to be pushed forward by advice and pressure from the top.

Nidhis offer another promising raw material for the emergence of joint stock banks. Some of them have already adopted banking functions and under the inducement of the concessions suggested and under encouragement from public opinion and from government, some more might come into line and be the precursors for healthy and strong local banks in Madras. Similar results could be brought about in Bengal with the transformation of the loan offices. Much greater effort would be needed in Bengal for the establishment of Indian joint stock banks after the recent failure of the Bengal National, and whatever may be the situation elsewhere, the strengthening of existing local institutions becomes an imperative duty in Bengal.

144. I have tried to look in another direction for expansion of banking proper in this country. There are 490 co-operative central banks. Some of them are located at places, where there is not a branch either of the Imperial Bank, or of the joint stock bank. From the point of view of loans, the co-operative movement caters only for its members. From the point of view of receiving fixed deposits, the central banks do receive them from non-members and I understand that they are also receiving current deposits from non-members at certain places. Accurate information on this subject could not be secured, as indeed the examination of the co-operative movement at the hands of the Committee took place more with reference to the strength of the movement rather than with reference to its ability to play a greater role, as supplying a nucleus of banking institutions in India. The co-operative movement works under restrictions at the present moment. Some of these restrictions may be quite sound, but the basis of these restrictions is the concessions, which the movement enjoys from government. The financial value of these concessions does not appear to have been ever estimated. How much it is worth to the movement in any province is not known. Concessions have been indicated in the past and made, and more concessions have been indicated and are recommended. Such a procedure is not satisfactory. It does not count the cost. Nor does it indicate, whether the same result or even bigger result could not be brought about with the same outlay. The restrictions promise to remain, and working under these restrictions, how far can the central banks offer service to the public on the side of (1) receiving fixed and current deposits and (2) giving loans against adequate securities? The question to examine would be, whether they have the proper staff to handle these matters and whether they could handle them without serious risk to themselves. I would recommend that each province should, as an experiment, get some of the central banks, where the staff is suitable, to engage in ordinary banking business within definite instructions and limits. From the point of view of the ideal, that these 490 banks could some day serve not only the members of the movement, but the general public. Recent restrictions on hundi and other lines of business imposed on them appear to be in a retrograde direction. The idea that co-operative banks should do co-operation and nothing

else, is in itself unsound. The co-operative movement would gain much in popularity and these banks would be the means for getting the movement known to a larger public, if they were, within safe limits, to initiate general business. The position needs a careful examination, and it can hardly be brought about until the opinion of officials, who have much to say about the movement and much to do with it, and the opinion of non-official co-operators coincide on this point.

145. Other questions, affecting the prospects and working of joint stock banks in India, would be found in various places in the report. These are, the question of encouraging the use of cheques and more transactions being done by cheque, instead of by cash; the question of the larger vogue of trade bills, instead of cash credit; the question of the improvement of mortgage security and of the introduction of a system of equitable mortgages. A restriction on dividend beyond 6 per cent. has been suggested in the interests of the banks, so that reserves may be built up. For smaller joint stock banks in India, a vicious circle exists at present, in which, dividends, share values and deposits have a direct connection, and it is the provision for reserves, which suffers. If the idea is of building up a sound system, such a restriction is necessary, but it is only justifiable, when it is accompanied by concessions. The most outstanding concession recommended is, that Indian joint stock banks should feel, that, as against foreign banks, the field of internal banking is reserved for them. They should be further supported by the idea, that, though their field of activity is limited by the funds available, that portion of the savings of the Indian people, which becomes bank deposits, will not go elsewhere. Such measures will establish that direct economic link, which does not exist now openly and consciously, between those, who save, *viz.*, the depositors, those, who administer such savings, *viz.*, banks, and those, who use such savings by way of loans, *viz.*, trade and industry. The confining of the foreign element in the shareholding of Indian banks to a minority of 40 per cent., and directorate of Indian banks to a minority to be prescribed, will help in the promotion of this economic feeling of common interest amongst Indians. These are integral portions of the national policy, which is called for in India in the interests of the promotion of Indian joint stock banks.

CHAPTER XI.

FOREIGN BANKS—SOME HISTORICAL FACTS.

146. "Exchange Bank" is the name applied to these banks in the London banking world in order to distinguish them from other banks, but the use of this name in India is misleading and improper. Its introduction in the general banking literature would be as objectionable as the use of the words "Home banks",—not infrequent by the Englishmen in India, to describe banks in the United Kingdom. As will be shown later, for some of them at all events, the handling of foreign exchange and the financing of foreign trade have become a smaller and less profitable part of their activity. As they are, they have the larger part of the stage to themselves and in a discussion of banking in India, it is inevitable, as will be shown later, that the spot light should be kept on them. A more correct description from the Indian point of view would be to call them foreign banks, a description, which, by their attitude, they have deserved.

The extent to which foreign banks have consolidated their position in India and have become a menace to banking progress, cannot be realised without a close examination of their history and their growth in the past. It is a pity, therefore, that the Committee did not have these facts collected in order to appreciate the solid foundations, on which some of these institutions rest, the great advantages, which they have enjoyed in the past and which have enabled them to build up big reserves, their weight and political influence and their intolerance of the growth of local enterprise, even where such enterprise was controlled by Englishmen.

147. These remarks apply to British institutions, whose example and profitable career has attracted several foreign banks in recent years. The policy of the open door has borne fruit, and many nationalities are now represented, making the problem more difficult from the Indian point of view.

The East India Company, which originally had a monopoly of the trade, regarded the monopoly of exchange business as peculiarly its own. It was only when the power of the Company was really broken, that in 1853 a charter was given to the Chartered Bank of India, Australia and China. After this date the East India Company had really lost effective power and a monopoly, which they were anxious to preserve for themselves, and which might have been kept for the state, had their tradition been followed, was thrown open to new institutions. These new institutions, however, were not slow to realise the advantages, and they have held on to them as against Indian institutions with remarkable tenacity, sharing exclusive benefits amongst themselves.

I am indebted to the Bengal Provincial Committee for the following information:—"The next in point of age is the National Bank of India, established in 1863, under the name of the Calcutta

Banking Corporation, which was changed to the present name on March 2, 1864. The head office was at first in Calcutta, but was transferred to London in 1866. As a result of this, the bank lost its predominantly Indian character. It may be recalled in this connection that at the time of the transfer, four out of the seven directors were Indians, *viz.*, Baboo Durgachuran Law, Baboo Heralaul Seal, Baboo Patit Pabun Sein and Maneckjee Rustomjee, Esq. Of the two auditors, one was a Bengali,—Shamachurn Dey, Esq. The paid-up capital of Rs. 31,61,200 at the time was increased to £466,500, requiring representation of non-Indian interests on a wider scale. The Mercantile Bank of India has been in existence in its present name since 1892, but is actually much older. It was formed out of the Chartered Bank of Asia which obtained its charter as early as 1853 and of the Mercantile Bank of India, London and China started in Bombay in the same year. The Eastern Bank was incorporated in 1909. Lastly, the Peninsular and Oriental Banking Corporation was established in 1921, and from January 1, 1928, its control together with that of the Allahabad Bank, which had become affiliated to it, passed to the Chartered Bank of India, Australia and China. An important event in Indian banking is the recent entry of the Lloyds Bank, which, with the absorption of Messrs. Cox & Co., H. S. King & Co., and associated firms, has built up a considerable business in India. Of the Exchange Banks, which have no sterling capital, the oldest is the Hongkong and Shanghai Banking Corporation established by an ordinance of the Hongkong Legislative Council in 1867 ". How humiliating for the great British enterprise, the National, one of the Big Four amongst its fellow ' Exchange ' Banks, as it looked down Clive Street from its proud corner in the imperial days of Lord Curzon and after, to have this dark skeleton in its history, involving the presence of Indian directors on its board and actually an Indian auditor to look into its accounts!

148. Some idea of the capital engaged in banking business in India in 1863 and in 1900 may be derived from a minute on the establishment of a Central Bank by the Hon'ble Sir Edward Law, K.C.M.G., dated 31st January 1901.

" Referring again to Table B, we see that the total capital of the joint stock banks is now Rs. 19,86,09,500 and correcting this figure as above, to make allowance for the non-available portion of the capital of the Exchange Banks established abroad, we find the following results:—

	Rs.
Half capital of English Exchange Banks .	4,69,32,500
One-third capital of Foreign Exchange Banks .	2,93,10,833
India joint stock Banks	1,68,12,000
TOTAL .	9,30,55,333

To the above amount we must add the existing capital of the Presidency Banks Rs. 5,53,00,000 and we arrive at a sum of Rs. 14,83,55,333 as available to-day for trade requirements.

TABLE B.

CAPITAL OF JOINT STOCK BANKS EXCLUDING THE PRESIDENCY BANKS.

Provincial Banks.

	Paid up Capital.	Reserve Fund.	Total.
	Rs.	Rs.	Rs.
1863.			
Simla Bank, Ld.	6,38,500	...	6,38,500
Agra Savings Fund	15,000	4,500	19,500*
Uncovenanted Service Bank, Ld	30,000	...	30,000*
Punjab Bank, Ld.	5,00,000	...	5,00,000
Central Bank of Western India	48,18,600	50,000	48,68,600*
			60,56,600
1900.			
Simla Bank Ltd.	10,00,000	12,50,000	22,50,000
Punjab Bank, Ltd.	1,78,750	1,75,000	3,53,750
Allahabad Bank, Ltd.	5,00,000	9,50,000	14,50,000
Bank of Calcutta, Ltd.	15,00,000	10,00,000	25,00,000
Bank of Upper India, Ltd.	10,00,000	5,40,000	15,40,000
Bhargava Commercial Bank, Ltd.	3,00,000	1,30,000	4,30,000
Oudh Commercial Bank, Ltd.	3,00,000	1,80,000	4,80,000
Kashmir Bank, Ltd.	1,00,000	32,000	1,32,000
Punjab National Bank, Ltd.	2,00,000	1,00,000	3,00,000
			94,35,750

Local Banks with London connection.

1863.			
Delhi Bank Corporation, Ltd.	20,00,000	60,000	20,60,000*
Commercial Bank of India, Ltd.	50,00,000	...	50,00,000
			70,60,000
1900.			
Commercial Bank of India, Ltd.	40,00,000	...	40,00,000
Delhi and London Bank, Ltd.	33,76,250	...	33,76,250
			73,76,250

* Closed.

Exchange Banks.

	Paid up Capital. £	Reserve Fund. £	Total. £
1863.			
Oriental Bank Corporation . . .	1,260,000	252,000	1,512,000*
Agra and United Service Bank, Ltd. .	1,000,000	200,000	1,200,000*
Chartered Mercantile Bank of India, London and China.	500,000	60,000	560,000
Chartered Bank of India, Australia and China.	644,000	10,000	654,000
Bank of Hindustan, China and Japan .	250,000	...	250,000*
Comptoir D'Escompte de Paris . .	1,600,000	334,000	1,934,000
			6,110,000
1900.			
Chartered Mercantile Bank of India, London and China.	561,500	30,000	591,500
Chartered Bank of India, Australia and China.	800,000	525,000	1,325,000
Comptoir D'Escompte de Paris . .	6,000,000	640,000	6,640,000
	T.S.	T.S.	T.S.
Deutsche Asiatische Bank . . .	5,000,000	...	5,000,000
Hongkong and Shanghai Banking Corporation.	10,000,000	1,000,000	11,000,000
National Bank of India, Ltd. . .	500,000	330,000	830,000

Summary.

	Total. 1863. Rs.	1900. Rs.
Provincial Banks	60,56,600	94,35,750
Local Banks with London connection . .	70,60,000	73,76,250
Exchange Banks	6,11,00,000†	18,17,97,500‡
	7,42,16,600	19,86,09,500 "

149. The interesting facts, which are brought out in the above tables, are:—

(1) That several 'Exchange' Banks, which were established in India, closed their business. What was the extent of their operations in India and how much Indian money was lost, are points, which, I hope, will be ascertained.

(2) That the British 'Exchange' Banks, the original four, which now occupy such a large place on the canvas, were modest affairs in their origin with capital of from Rs. 50 lakhs to one crore.

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* Closed.

† At £1 is equal to 10 rupees.

‡ do. do. 15 do.

(3) There must have been heavy profits, which enabled these banks to increase their capital and their reserves. The increase of the reserves of several institutions between 1900 and 1928, is indicated in the following table, which also gives particulars of the dividends declared.

	Year.	Capital.	Reserve.
Chartered . .	1900	£880,000	£325,000
	1928	£3,000,000	4,000,000
National . .	1900	£500,000	330,000
	1928	£2,000,000	2,950,000
Mercantile . .	1900	561,500	30,000
	1928	1,050,000	1,450,000
Hongkong . .	1900	Dlrs. 10,000,000	Dlrs. 100,000
	1928	£2,021,000	£6,000,000 (sterling) £1,415,000 (silver)
Comptoir . .	1900	Frs. 6,000,000	Frs. 640,000
	1928	„ 250,000,000	„ 113,878,000

National Bank of India.

Dividend :—

12 per cent. per annum for 8 years upto 1912.

16 per cent. per annum for 1913.

14 per cent. per annum for 1914* (with bonuses of 33⅓ per cent. in shares for 1907, of 25 per cent. in shares for 1910, and 2 per cent. in cash each year for 1912 and 1914).

16 per cent. for 1915, 1916, 1917, with bonus of 4 per cent. in addition for 1917.

20 per cent. from 1918 to 1929.

Mercantile Bank of India.

Dividend :

*8 per cent. for 1912, 1913 and 1914 for A and B.

10 per cent. for 1915.

12 per cent for 1916.

14 per cent. for 1917 and 1918.

16 per cent. from 1918 to 1929.

Chartered Bank.

Dividend : 14 per cent. for 12 years up to 1918—free of income-tax.

Bonus :

2½ per cent. for 1912
3 per cent. for 1913 and 1916
5 per cent. for 1917
6¼ per cent. for 1918
7 per cent. for 1919

} all free of income-tax.

Dividend from 1919 to 1929 was 20·25 per cent.

Hong-Kong Bank.

1916 to 1928 dividend given was 64 per cent.

* Free of tax.

In their origin these banks were started for business with India, which was for the United Kingdom the most important business. There is no doubt that English interests grew afterwards in various other places. But the tradition has remained and the importance of the Indian business has remained, and some of the institutions working in India are classified even in official documents as institutions, the major portion of whose activities are confined to India. Other institutions, whose period of activity in India began later, may also be presumed to have made corresponding gains. The idea of what these institutions have gained from India in the past, which the above table gives, is very necessary in order to appreciate not only the lack of gratitude, but the sheer brutality of some of the demands of the foreign banks, and of their opposition to some of the measures, which are being suggested for the encouragement of Indian institutions.

150. Forgetting their humble origin, they scoff at Indian effort as either mushroom or Swadeshi; oblivious of the warmth of official support and unrestricted opportunities placed at their disposal in the years of their early growth, they oppose all salutary restrictions and reservations in favour of Indian institutions. They have succeeded in intruding in the discussion of banking problems their crude notion of equality, which means that the field must be left to them free, so that they may continue to use India's money to hold intact their present monopoly, create a foreign money trust in this country by establishing as strong a position in the interior as they have done at the ports, and strangle in an unequal fight Indian institutions as soon as they raise their heads above the ground.

No appreciation of the position, which the foreign banks occupy in this country, can be made, nor of the measures required to improve the situation, that has become dangerous and alarming from the Indian point of view, unless a clear idea was gained of the position of these institutions since 1900 during the last thirty years. This is the explanation of some quotations from official documents, which I am giving below. The terms of reference definitely enjoin upon us the duty " to investigate past records " of banking in India. No apology is therefore needed for putting forward the views, which the ' exchange ' banks have held about themselves, and which the Presidency Banks, high Government officials both in India and in London, and the Government of India and the Secretary of State held about them. In the following quotations I am letting the ' exchange ' banks speak for themselves. I trust it will be remembered that many of the views were expressed by persons, who were examining the question from the banking point of view and who would not be accused of political bias. It is true that some of the opinions expressed in other connections would be somewhat inconvenient now, like the one, which pleads for high money rates, in order to prevent the " native producer " to hang on to his produce! Those, who uttered these words, hardly realised that a school of thought will grow, which will recognise that India belongs to these " native producers ", that, in the

person of a great English gentleman, a Viceroy would come to this country, who would feel such a great concern for these "native producers" that he would appoint a Royal Commission to inquire into their condition and their difficulties, and that a Finance Member would come to appoint a Banking Committee with such wide terms as to permit, through the Provincial Enquiries, a thorough investigation into their financial needs and disabilities.

151. The extracts illustrate and bring out the views held by the 'exchange' banks on many subjects on their valuable services to this country and the importance of their institutions, and the spheres of activity in which they should be protected, on what the Imperial Bank or a new central state bank should not do, and on the inevitability of high money rates and the consequent harm that is done to this country. They also bring out the high esteem, in which the Government of India, and high Government officials held these institutions, and the extent to which high authorities were persuaded to give in to the pressure brought upon them by these interests.

Extract from the letter No. 17, dated 18th January 1900, from the Government of India, to the Secretary of State.

"There still remains one objection in connection with allowing a Central Bank access to London, which has been pressed upon us by the Exchange Banks who apprehend that such a Bank, enjoying the use of the Government balances and possibly entrusted with the note issue, would be placed in a position of unfair competition with themselves. We cannot see that the Exchange Banks make out a strong claim for protection, and a suggestion which has been made that a Central Bank should be bound to make any and all remittances through their agency is out of the question. But there is no desire to disturb existing business unnecessarily, and we think that the restrictions proposed by the Presidency Banks in 1877, namely, that they should be confined to raising money by pledge of assets and to making remittances in payment of stock or other authorised investments purchased or acquired for the Bank in England, and in repayment of loans arranged for them, might be maintained."

Letter from the Government of India, to the Secretary of State for India, No. 56, dated 22nd February 1900.

My Lord,

We have the honour to forward, for your Lordship's information, a memorial addressed to His Excellency the Viceroy, in which the Exchange Banks of Calcutta protest against the suggestion that a new bank formed by the amalgamation of the three Presidency Banks should be allowed to borrow in London by pledge of assets or otherwise and make remittances to England by bills of exchange or otherwise in repayment of loans and also in payment of the price of stock or other authorised investments purchased or acquired for

the bank. The Memorialists admit that they can have no objection "to the mere amalgamation of the Presidency Banks," and their specific prayer appears to be confined to the suggestion in the 21st paragraph that the sterling transactions of the proposed Bank of India "should be confined to the shipment and re-shipment of gold, and that the bank should be prohibited from selling or buying sterling bills or selling or buying telegraphic transfers save, of course, through existing channels, namely, the Exchange Banks."

2. As your Lordship will now have learned from our Despatch No. 17, dated the 18th January 1900, the suggestion which has aroused the apprehensions of the Memorialists has been definitely adopted by our Government and submitted for your Lordship's approval. Our despatch contains a full statement of the grounds on which our proposals are based, and in particular includes a brief expression of our views on the claims now urged by the Exchange Banks. We should have been content to forward the present memorial without comment did we not think it due to the Memorialists and the important interests that they represent to show that we have not failed to give the fullest consideration to the objections and suggestions that they have put before us.

3. It is stated by the Exchange Banks in the first and second paragraphs of their memorial that for the last forty years they have "practically financed the whole export and import trade of the country," while the Presidency Banks have devoted themselves entirely to financing the internal commerce. We cannot for a moment admit the correctness of this assertion. Though the Presidency Banks have hitherto been prohibited from engaging in exchange operations their resources (and through them the resources of the Government also) have been freely placed at the disposal of all sections of the commercial community, including the Exchange Banks themselves who now imply that they have financed the whole foreign trade, with their own capital exclusively. On this point we may let the Memorialists speak for themselves. In December last the associated Exchange Banks deputed two representatives (who are among the signatories of this memorial) to meet our honourable colleague in charge of the Finance Department and to urge upon the Government that any loans made by the Government should be made equally to the Exchange and to the Presidency Banks. When it was intimated that the Government would be unlikely to depart from their past practice of giving all loans *through* the Presidency Banks, the deputation asked that the Presidency Banks should not be permitted to pass on the Government money except to the Exchange Banks, or at any rate that the Exchange Banks should have the first call on it to the exclusion of local banks and merchants, European and Native. A few weeks later the Government were suddenly and urgently pressed by the managers of two of the Exchange Banks to advance Rs. 30 lakhs to the Bank of Bombay. It was represented that unless the money was forthcoming, there was danger of a serious commercial crisis, and of an important failure. The Exchange Banks, it was

explained, would not provide money for their customers, though money could be obtained in a few hours under Act II of 1898, because they objected to buying telegraphic transfers at the rate at which your Lordship was then selling. Sooner than have recourse to this means of obtaining funds they frankly preferred to let the crisis come. Happily the crisis was averted, we believe, by the action of one of the Presidency Banks.

4. It would therefore seem that the impression conveyed by the opening paragraphs of the memorial requires some qualification. At least it is not clear that the foreign trade of India can invariably rely upon being financed by the Exchange Banks who, very naturally, and properly, employ their money wherever it can be employed to most advantage, nor is it certain that the Exchange Banks are free from the besetting tendency to look to the Government balances instead of to their own resources. The recommendation, therefore, that the proposed amalgamated bank should be allowed, under certain restrictions, to borrow in London is not ruled out of court " in limine " by the consideration that the foreign trade is already amply financed by institutions exclusively employing their own capital.

5. But the serious objections of the memorialists are that the restrictions which it is proposed to place upon the operations of the projected bank are insufficient, and will expose them to dangerous competition. Moreover, they argue that the competition to which they fear to be exposed will not merely be the competition of a rival institution, but the competition of an institution " with all its contemplated resources and privileges and prestige as a State Bank." We desire, as we stated in our previous despatch, to avoid any unnecessary disturbance of existing business, and we regret that the advocacy of powers to borrow in London has aroused such deep apprehension. But we cannot but consider that this apprehension is much exaggerated. We can see no reason why a bank of India should not make its own remittances; the restrictions which we have proposed and which are correctly stated (except for the use of the word " India " instead of " England " in the last line but one of the paragraph) in the fourth paragraph of the memorial, will prevent it from doing more. We could have wished that this contention of the banks, which appears to us to be untenable, had been supported by some clearer indication of the actual manner in which the competition they deprecate may be expected to prove unfair and injurious. The demand that the Presidency Banks should have power to borrow in London is supported by practically every merchant in India, and will be still more vigorously supported if your Lordship should negative the proposals which have been made in several quarters for the free use of the Currency Reserve for loans.

6. We are at some loss to understand the further allegation of the Exchange Banks that they will not only be exposed to competition but to the competition of a State institution, or to follow the argument that the proposed legislation " will tend to an absolute

reversal of the policy of 1876 when the Government retired as much as possible from all connection with the affairs of the Presidency Banks, except so far as to keep a portion of their balances with such banks." The term State Bank can of course be used in several gradations of meaning, and seems to be so used in this memorial. The Memorialists, indeed, appear to argue that any bank, the custodian of the public balances, must necessarily be a State Bank: if this is their real meaning, it would be fair to conclude that they consider the Bank of England is a State Bank, which is notoriously not the case in the accepted meaning of ordinary language. But we imagine that they would not admit this conclusion, and we doubt whether they would deny that Government, without any question of constituting a State Bank, is entitled to use a bank, in a department separated from the Banking Department proper, as its agent for the management of its note issue. This is the relation between Her Majesty's Government and the Bank of England, and we propose to reproduce this arrangement in India with the modification that a link may be established between the proposed banking and issue departments, if your Lordship assents to the adoption in any form of the German system of authorising the issue of uncovered notes on payment of a tax. But this is a point not touched on by Memorialists, and the arguments that they direct against State competition seems hardly germane to the discussion of a project in which State intervention is restricted within such well-defined and well-recognised limits.

7. We notice, moreover, that the Memorialists have no objection on principle to our allowing resort to the currency reserve in times of financial stress; indeed they suggest this expedient as an alternative to the augmentation of banking capital. In our despatch of the 18th January we have explained our objections to this proposal, and we should not further discuss it here, but that the Memorialists have sought to justify it by a reference to the occurrences connected with the failure of the old Bank of Bombay in 1868. It will be well for us to recall the circumstances which render this precedent inapplicable. In June 1865 a severe commercial crisis occurred in Bombay, and there was a run on the bank, which was already crippled by reckless management. The Governor of Bombay telegraphed that unless he could give an assurance that the Government was prepared to advance the Bank Rs. 150 lakhs from the currency reserve there would be a great danger of the bank suspending payment, a result which he declared might involve "disaster, financial and political, more extensive than the mere stopping of the bank." The Government of the day authorised him to use his discretion: the assurance was given, and the panic allayed, without, as it proved, any actual withdrawal from the currency reserve. The facts were reported by the Local Government to the Secretary of State, who strictly prohibited the use of the reserve for this purpose on future occasions (Despatch No. 71, dated 8th September 1865). In February 1867, another panic occurred, and hte Local Government gave notice that the Govern-

ment were prepared " to support the bank with all their available resources." On this occasion the currency reserve was not mentioned, and was probably not intended. The reference in the memorial to these incidents would have been more apposite if they had been used to illustrate the evils of State connection with banking institutions. We, at any rate, can find in them no justification for any departure from the rule of maintaining the currency reserve for its proper function of guaranteeing the convertibility of the paper currency.

8. In the meantime we are informing the Exchange Banks that their memorial is being transmitted to your Lordship.

We have the honour to be, etc.,

(Signed) CURZON OF KEDLESTON.
E. H. H. COLLEN.
A. C. TRECOR.
C. E. DAWKINS.
T. RALIEGG.
DENZIL IBBETSON.

Memorial of Exchange Banks to the Viceroy, 1900.

To His Excellency the Right Honourable George Nathaniel Baron Curzon of Kedleston, G.M.S.I., G.M.I.E., in the County of Derby in the Peerage of Ireland, Viceroy and Governor-General of India.

The Humble Memorial of the Exchange Banks of Calcutta.

That your Memorialists are bankers, and that most of them have for the last forty years and upwards been intimately associated with the trade and commerce of India, and have practically during that period financed the whole export and import trade of the country, and have thus enabled that trade (which is still being financed by your Memorialists) to meet the fluctuations of exchange and to develop it to the extent to which it has developed of recent years. Your Memorialists have, for that purpose, utilised their capital, which amounts to about six millions sterling or thereabouts.

2. That in doing this they have met a great want of the trade aforesaid, the Presidency Banks since 1876 having been prohibited from financing such trade and having in consequence devoted themselves entirely to financing the internal commerce of the country.

3. That your Memorialists have under these circumstances noticed with considerable apprehension the recent suggestion that the new bank proposed to be founded should be allowed to borrow

in London, and enter into sterling operations in connection therewith,—a request which was refused to the existing Presidency Banks in the year 1878,—and they have observed that the Financial Member in his speech in Council on 5th January 1900 expressed an opinion that he saw no reason why, subject to the restrictions suggested by the Presidency Banks themselves in 1877 (on the occasion of the above-mentioned request being preferred), such course should not be followed, and that he thought that the Exchange Banks need have no apprehension on that account, as these restrictions would sufficiently provide against the new bank interfering with them.

4. That the restrictions so suggested by the letter of the Presidency Banks were that the Banks should have power,—

(*i*) To borrow money, either in India or England, by pledge of assets or otherwise, on such terms as to repayment of interest, etc., as the said bank may from time to time arrange;

(*ii*) To make remittances to England from time to time by Bills of Exchange or otherwise as may seem expedient in payment of the price of stock or other authorised investments purchased or acquired for the banks in India, and also in repayment of loans arranged for there.

5. That your Memorialists believe that these restrictions are not stringent enough to prevent the proposed Presidency Banks, or the new Bank proposed to be constructed by their amalgamation, from entering the Exchange markets and competing with your Memorialists in the purchase of bills on London,—a business which, as they have pointed out, has been carried on by them for forty years and upwards with great advantage to the commerce of India,—and they trust that such competition will not receive either the approbation or the active assistance of the Government of India, as it will have in all probability the effect of seriously interfering with your Memorialists in their present sphere of operations; but while they recognise that it was not the intention of Government or the Financial Member that the proposed amalgamated bank should so compete or deal in exchange, they believe that this result will take place unless more stringent restrictions are imposed.

6. That they would therefore venture respectfully to submit to your Excellency their views on the subject of the present scheme of amalgamation of the Presidency Banks and the proposal to afford access to the London market, and the restrictions they propose in the hope that they will receive at your Excellency's hands that sympathetic consideration which Your Excellency has ever evinced for the interests and prosperity of British capital in India.

7. That your Memorialists also believe that if the state of affairs provided for by Act II of 1898 had been allowed to continue and to fully develop, there would be no necessity for any large increase

of the capital of the Presidency Banks, and that with a stable rupee all the money wanted for the normal requirements of Indian trade and development could and would be found by your Memorialists and sterling capitalists engaged or interested in the commerce of India, especially if (as indeed has been suggested by the Bank of Bengal itself as well as by the Chamber of Commerce) in addition to those resources resort could be had to the paper currency reserve as has been done in times of financial stress, such as the Bombay Bank crisis of 1868; and in this connection your Memorialists would in passing observe that the very recent stringency in the money market, which was so acutely felt at Bombay in the middle of January 1900, was not due to the inability or unwillingness of Exchange Banks to meet the trade requirements, but was directly attributable to the action of the Secretary of State in suddenly cancelling the then subsisting notification issued under Act II of 1898 provided for the payment of rupees in India by telegraph against the deposit of sovereigns in London at the stable rate of 1s $4\frac{5}{32}d.$, such action being wholly unexpected, having regard to the objects and reasons for the extension of Act II for two years by Act VIII of 1898, which are printed at page 297, Part V of the *Gazette of India*, July 9th, 1898.

8. That as regards the introduction of English capital into India, your Memorialists beg to draw your Excellency's attention to the observations made in an article in the "Money Market Review" of 30th December 1899, with which as a whole they agree A copy of this article is appended to this memorial.

9. That to the mere amalgamation of the Presidency Banks your Memorialists, of course, can have no objection; but they would at the same time point out (1) that the proposed legislation in its entirety will tend to an absolute reversal of the policy of 1876, when the Government retired as much as possible from all connection with the affairs of the Presidency Banks, except so far as to keep portion of their balances with such banks; (2) that such legislation will invade the sound existing restriction, under section 37 (*e*) of the Presidency Banks Act, 1876, as amended by Act V of 1879, whereby such banks are prohibited in effect from advancing to or on the personal security or credit of firms or individuals not resident or represented in India; and (3) that the new bank will be to all intents and purposes a State Bank with privileges as to its note issue.

10. That, further, with regard to the proposal to allow the Presidency Banks or the new bank to borrow in London, and to enter upon all sterling operations incident thereto, your Memorialists would also beg to point out and to lay great stress on the fact that by the proposed new departure the connection between the Government and the Presidency Banks would be drawn closer, and that the Presidency Banks, or their amalgamated representative, having to all intents and purposes become a State Bank, all the well known objections to the State competing with its subjects in matters relating to private enterprise would in that case become applicable.

11. That the intervention of the State in matters of trade has always been deprecated in England and in countries subject to British influence. State interference in such matters (the limits of which are pretty well known) has been generally confined to the control of railway and other large monopolies, and to the acquisition of postal and telegraph communications, and such State intervention or interference is based generally on the principle of protecting the less moneyed and dependent class of the community, and all schemes, except with that end, has been looked on with great suspicion and circumscribed and restricted in every way; the case of State railways in India being a solitary exception to this policy, based merely on the reluctance of private enterprise to come forward in the particular matter.

12. That on the acquisition by the British Government of the telegraphs in 1867 the rights of the railways,—the companies with whose rights the proposal of the Home Government conflicted,—were recognised to the utmost, and their interests were also carefully protected by their representatives in Parliament,—a course which is always open in England, where all interests are in some way represented in the Legislature, but which protection is not always open to interests in India when menaced by legislation.

13. That similar precautions were taken by the Government in 1886 on the starting of the parcel post to protect the carrying interests and to disarm opposition to that project, and there are numerous other instances of this nature, and in the matter of banking your Memorialists may point out that the extent of the operations of the British Postal Savings Bank is at the present moment causing considerable apprehension, and every effort is being made to prevent any suspicion of competition with the banking interests of that country, and such competition is deprecated and discountenanced in every possible way.

14. That your Memorialists humbly submit it is therefore incumbent on the Government of India to investigate this matter with more than ordinary care, considering the magnitude of the interests involved, and the results of such competition, when once entered into, and in this connection it is not overstating the case to say that if the new bank, with all its contemplated resources and privileges and prestige as a State Bank, were allowed to enter into active rivalry with the existing Exchange Banks, the latter would practically be swept out of the field and effaced, regard being also had to the magnitude of exchange operations in which the new bank would, under its proposed constitution and powers, be inevitably engaged, unless it were altogether debarred from any exchange operations.

15. That in the matter of State Banks your Memorialists quite admit that such banks are practically a necessary consequence where large amounts are raised by taxation, and that the Government must keep their balances somewhere, and that the custody of such balances must in the nature of things benefit one particular bank above

others; but they believe that the tendency of modern times is gradually to withdraw as much as possible from such preference and influence, and they suggest that such facilities should in no case be extended more than is absolutely necessary, and certainly not where they would lead to rivalry with old-established institutions.

16. That in the case of India and elsewhere such privileged banks are able to employ the Government balances as mercantile loans greatly to the public benefit, but it is a remarkable feature of the present proposal that the Bank of Bengal, in their letter of the Government on 2nd December 1898 (para. 17) suggest that if the Paper Currency Reserves were placed at their disposal, rules could easily be framed that would guard against use by the Exchange Banks of such reserves,—a suggestion which, if pursued, would invidiously oust the Exchange Banks from privileges which would be open to the rest of the mercantile community.

17. That with such proposals of the Bank of Bengal before them, the Exchange Banks feel the necessity for re-asserting " that the discrimination by the State between different classes of occupations and the favouring of one at the expense of the others, whether that one be farming or banking, printing or railroading, is not " (to adopt the words of a great American publicist) " legitimate legislation, and is an invasion of the equality of right and privilege which is a maxim of State Government, their occupation is honourable, it is beneficial to the public, and it deserves encouragement. It is not the business of the State to make discriminations in favour of one class against another, or in favour of one employment against another. The State can have no favourites. Its business is to protect the industry of all and give all the benefits of equal laws."

18. These propositions have been in effect recognised by the Government of India in relation to railway matters. In 1871 the Indian Government enunciated the proposition that it was evident that " the laws of the land relating to railways should be the same to whomsoever those railways belonged, and the law which governed companies' lines must also govern the railways of the State." This was acted on recently in the year 1896 in the matter of the repeal of the 81st section of the Railways Act of 1890, and in other cases of competition between State and other railways or carriers.

19. That your Memorialists feel that these principles are applicable to the situation created by the present proposals, and that your Excellency will hesitate to allow the competition of the State Bank in the exchange market after forty years interval, during which your Memorialists have utilised their capital in India and have built up their business, which after all (despite inevitable risks incurred) is not one in which large profits have or can be made, and that if your Excellency permits the concession asked for by the Presidency Banks, namely, access to the London money market, your Excellency will not grant it except on such terms as will preclude what is practically State competition with existing enterprise.

20. Your Memorialists beg also to draw your Excellency's attention to a paragraph in the statement of Mr. A de Rothschild before the Currency Commission (at page 186 of the Report) in which he proposes the establishment of a State Bank of India, and which paragraph is as follows:—

"The Bank should not conduct any exchange transactions, but should confine itself (like the existing Presidency Banks) exclusively to internal operations, and it would also, when necessary, make advances to the Indian Government against deficiency bills, which is frequently the case with the Bank of England."

21. That your Memorialists on this point suggest that, as the amalgamated banks are, or the new bank is, to have a sterling capital, it should be made a condition of such permission that all their sterling transactions should be confined to the shipment and reshipment of gold, and that the Presidency Banks or new bank should be prohibited from selling or buying sterling bills or selling or buying telegraphic transfers save, of course, through existing channels, namely, the Exchange Banks.

22. Your Memorialists have set out their views and apprehensions at some length on the matter which is of supreme importance as well to the country at large as to your Memorialists, but they quite appreciate that the Financial Member of your Excellency's Council evidently shares Mr. A. de Rothschild's view that the proposed bank should not deal in exchange in competition with your Memorialists, but what they fear is that unless the restrictions proposed by them or some others equally stringent be imposed, the result of the access to the London market will incidentally but inevitably be an amount of dealing in Exchange which will dislocate your Memorialists' operations and produce serious, if not overwhelming, competition without any benefit to the country, but the reverse, and that it will, as pointed out in the article in the "Money Market Review" hereto appended, check rather than stimulate the flow of loanable sterling capital from England to India.

23. Your Memorialists appeal to Your Excellency in this matter with confidence in your Excellency's anxiety to stimulate the introduction of sterling capital into India by private enterprise and to protect it when introduced, and they leave their case in your Excellency's hands in full confidence that it will at least be dealt with as considerately and fairly as if their interests were represented in your Excellency's Council.

Your Memorialists pray that the foregoing representations may be taken into careful consideration before any legislation be initiated on the subject-matter of the proposals to amalgamate the existing Presidency Banks or to establish a new bank on a sterling basis, and that any Bill that may be framed and passed for the purpose of giving legislative effect to such proposals may contain effectively stringent provisions preventing the amalgamated banks

or the new bank from competing with the Exchange Banks as and in manner indicated in this memorial.

(Signed) For the National Bank of India, Ltd.,
W. TOUCH, Manager.

For the Delhi and London Bank, Ltd.,
GEO. WARD, Manager.

For the Mercantile Bank of India, Ltd.,
H. G. FIDLER, Manager, Calcutta.

For the Comptoir National D'Escompte de Paris,
E. FREYVOGEL, Manager.

For the Chartered Bank of India, Australia and China,
J. B. LEE, Agent.

For the Agra Bank, Limited.
F. G. MAYNE, Manager, Calcutta.

For the Hongkong and Shanghai Banking Corporation,
P. E. CAMERON, Agent.

Deutsche Asiatische Bank,
JAUP P.P. GUTSCHKE.

Dated Calcutta, the third day of February, 1900.

No. 199, dated 13th June 1901, from the Government of India, to the Secretary of State.

(*Secretary of State's question No. VII*).—Is it desirable to entrust to a bank the management of the paper currency, due regard being had to the principles upon which it was established in 1862?

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Answer.—(Para. 9). It will thus be seen that we admit the force of some of the objections which have been raised against the scheme, the chief of which is the cost of providing the extra capital that would be required. Of the capital at present available for financing the trade of India it is difficult to form a precise estimate. The total capital of all the Joint Stock Banks amounts to Rs. 23,39,09,500 but this includes the whole capital of the Exchange Banks, a large proportion of which is employed out of India. It is impossible to fix what this proportion may be, but there is reason to believe that considerably less than one-half of

the capital of these banks could be made quickly available in India to meet special demands.

Extracts from the letter, dated 8th December, 1904, from R. Campbell, Esq., Chairman, National Bank of India, to the Secretary of State for India.

"The proposal that these banks should be allowed to engage in sterling exchange business is not a new one. It has been put forward time after time during the last 50 years, and with a small exception, allowing them within certain restrictions (which we maintain should be adhered to) to make customers' remittances to England, it has been steadily vetoed by the Government of India. * * * * For the last four or five years there has been no real monetary stringency in India, any trade demand for additional currency during the busy season having been promptly met by imports of sovereigns. The Exchange Banks with their large sterling resources in the shape of capital and deposits, amounting to probably not less than twenty millions sterling, have shown themselves ready and able to meet and even anticipate all India's requirements with the result that, for some years past, Indian trade has been conducted with ease and comfort, and without the drawbacks incident to monetary stringency and oppressive interest charges. * * * * It cannot be alleged that the Exchange Banks, whose business it has been for the past 50 years to finance the external trade of India, are incompetent to do so, and no complaint is heard of inefficiency or oppressive charges. We can only conclude therefore that, with less reason than ever, this is only another renewal of the attempt to get for the Presidency Banks the permission they have so long desired to operate in sterling exchange. The Exchange Banks have felt it their duty to oppose this demand on every occasion, their latest protest being addressed to the Government of India so recently as January, 1900. * * * * We repeat that the Presidency Banks should confine themselves to their legitimate business, leaving the negotiation of sterling bills to the Exchange Banks, whose business it is, and who, by reason of their organisation and their London establishments, are best able to appreciate the risks attaching thereto. We do not gather from your letter whether any and what limit is to be placed on the extent to which the proposed operations may be carried, or to the frequency with which they may be repeated. So far as we know, they might not only be of great magnitude but of constant repetition. By bringing in money from London, covering by sterling bills as soon as possible, repeating the operation and again covering, and so on, the Banks might for anything we know be constant huge operators in sterling exchange so long as the rate of interest, which they themselves fix, is at or over 6 per cent. We can hardly suppose that such a course would be within the spirit of the desired permission, but we mention it to show how easily the liberty might be abused and how the introduction of the thin end of the wedge would surely lead to further encroachments.

Should the Government by allowing the Presidency Banks to go outside their proper sphere and operate in sterling exchange now depart from the principle to which, as I shall presently show, they have hitherto adhered, that the Government business should not be entrusted to a bank which deals in foreign exchange; if this principle is now to be abandoned and if exchange banking is no longer to be regarded as a disqualification for Government business, it seems not an unreasonable suggestion that in that case the Exchange Banks should be allowed to compete for a share of the Government business, and the Government balances on such terms as the Government might consider satisfactory."

Extracts from the letter, dated 9th December, 1904, from J. H. Gwyther, Esq., Chairman, Chartered Bank of India, Australia and China, to L. Abrahams, Esq., Financial Secretary, India Office.

"The Exchange Banks have practically financed the whole export and import trade of India for many years, and would naturally view with apprehension any legislation which would have the effect of placing the Presidency Banks in a position to compete with them for exchange business, which may reasonably be regarded as the particular province of the Eastern Exchange Banks.

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"It follows, therefore, that the only method of raising funds in this country would be by advertising for sterling fixed deposits, as is the practice of the Exchange Banks, who allow, at the present time, interest at the rate of 4 per cent. per annum for money placed with them for 12 months fixed. With shipping charges to and from India, this would mean a cost over 5 per cent. per annum.

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"With reference to the method of remitting to India the funds raised in this country, I am of opinion that the Presidency Banks should be restricted to purchases of Council Bills, and returns should be confined to shipments of sovereigns, thereby preventing the Presidency Banks from entering into competition with the Exchange Banks in India.

"With reference to the further question of allowing the Presidency Banks to sell drafts on London for the requirements of their customers, I feel that the concession, although, as at present restricted, it is of no great importance, would be liable to gradual enlargement, and so would create in the minds of the Exchange Banks suspicion and friction."

Extracts from the letter, No. 351, dated 19th October, 1905, from the Government of India, Finance Department, to the Secretary of State for India.

"But it is also clear that the full amount of relief cannot be obtained if the privilege of importing British capital is to be

limited to the representatives of a particular section of the trading community, as the Exchange Banks claim to be. Indeed, so far as this point is concerned, it makes little difference whether the foreign banks confine themselves strictly to their special field, or engage also in general business. The exclusion of the leading local banks must in either case tend to raise the price of money above its natural level. * * *

" For the reasons set forth in the foregoing paragraphs we hold that the grant of sterling borrowing powers to the Presidency Banks is essential to the further reduction and equalization of market rates; that recent conditions, while in some respects abnormally favourable, are susceptible of improvement; and that in any case provision should be made for exceptional emergencies. This last point is closely connected with the aspect of the question to which we now pass on,—the effect of the refusal of access to London on the status of the Presidency Banks. * * *

" As regards the question of competition it is obvious that under the conditions which we propose the borrowing operations of the Presidency Banks will be so intermittent as to make it impossible for them to obtain a permanent hold upon the clientele of the Exchange Banks, while the powers of control which are to be entrusted to the Comptroller General will effectually prohibit those purely speculative transactions which have been fancifully suggested as the ulterior object which the Presidency Banks have in view. There will of course be slightly increased competition for bills in both directions, but not more than if the Exchange Banks had brought out the additional funds themselves. In making this a grievance the latter practically abandon their position that they are themselves prepared to keep the market fully supplied."

Extracts from the letter, dated 8th June, 1905, from the Secretary and Treasurer, Bank of Bombay, to the Secretary to Government of India, Finance Department.

" Now it is almost impossible to imagine that the extent of the borrowing operations of the Presidency Banks under the relative conditions to be imposed, could be of such an extent as to disturb the London money market, and there is no reason to suppose that the Presidency Banks would act in a way to affect the market against themselves * * * * It seems somewhat anomalous that one of the Exchange Banks which, themselves, make such large use of the London market, should endeavour to prevent the Presidency Banks from borrowing there on the ground that it would lead to disturbance of the market. Their own transactions must, in the nature of things, have a far more disturbing effect than those of the Presidency Banks could have, while the restrictions associated with the proposal, which the objection ignores, are such as to preclude all likelihood of the borrowing contemplated endangering the success of any Government operations."

Extracts from the letter, No. 27-Financial, dated London, the 16th March, 1906, from the Secretary of State for India, to the Government of India.

"I observe that the Presidency Banks in their letters now forwarded are at some pains to minimise these advantages; but, since they include the use without interest of Government balances seldom falling below three crores of rupees, I think that they must be regarded as substantial enough to justify, as a matter of fairness, and even to require (so long at least as there is not some very strong consideration of public interest to the contrary), the maintenance of the restriction now in question on the business of the Presidency Banks; a restriction which has been in force since these Banks and the Exchange Banks came into existence, and without which it is possible that some of the Exchange Banks might not have been established.

"I may add that any injury caused to the Exchange Banks by the competition of State-aided rivals would, in my opinion, be detrimental to their interests besides those of the institutions immediately affected. The four Exchange Banks whose representations were forwarded by my Predecessor possess large capital and other resources. I find that they purchased 24½ out of 36½ crores of bills and telegraphic transfers sold by the Secretary of State in Council in 1904-05. It is beyond doubt that, owing to their high standing, it is advantageous to the Secretary of State (and it may reasonably be presumed that it is advantageous to merchants engaged in trade between India and other countries) to be able to carry on remittance transactions through their agency, and to make use of the other facilities which they offer."

Extracts from the letter, No. 351, dated Simla, the 19th October, 1905, from the Government of India, Finance Department, to the Secretary of State for India.

"The older method by which the commercial community were taught to look to the Government for an appreciable part of the additional fund required in the busy season, and to call for State intervention on occasions of emergency, was inadequate and in some respects dangerous, and we shall be glad to replace it by an automatic system of dependence upon the sterling markets. But if we close the source of supply upon which the Presidency Banks formerly relied and continue to exclude them from the other, their position cannot but be seriously affected; and especially so, if the Exchange Banks should at any time make a systematic use of the advantages which they will then possess. We should view with grave apprehension any decision which thus tended to substitute in banking matters an irresponsible for a responsible agency. The Exchange Banks are not exclusively attached to India; they receive no special privileges from the Indian Government; and

we cannot expect them to acknowledge any obligations either to ourselves or to the Indian public. In this connection we may refer to the evidence given before the Currency Committee of 1898 regarding the transfer of their capital to England during the currency difficulties of 1893-99; and to our despatch No. 56, dated 22nd February 1900, which describes their action in 1899 when a serious commercial crisis was threatened in Bombay. The incident here referred to is specially relevant as an expample of the possible results of hampering the responsible local banks and relying upon the Exchange Banks to fill their place. This exclusive regard for their private interests is equally noticeable in their memorial on the Central Bank question in 1900 and in the present correspondence. We consider such an attitude to be perfectly legitimate, though it appears to us to assume an extravagant form in the objections to the reasonable proposal that the Presidency Banks should be allowed to remit small sums on behalf of their customers and in the argument that the occasional borrowings of the Presidency Banks might disturb the London market. But it justifies our reluctance to rely upon the Exchange Banks, under all circumstances, to discharge the functions which naturally belong to a Central Bank.

" On these broad grounds we resubmit our proposal to admit the Presidency Banks under suitable restrictions to the London money market. We hold strongly that the question is one to be decided solely on considerations of the public interest. But in deference to your wishes we have again examined it with special reference to the representations now before us, and are satisfied that additional limitations would reduce it to a nullity; that it involves no unfair or indeed appreciable competition; and that in whatever serious competition already exists it is the Exchange Banks who are the aggressors.

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" On the other hand we have to recognise the fact that the Presidency Banks are already exposed to competition in what is supposed to be their exclusive sphere of influence. As the Bank of Bombay points out, ' all the Exchange Banks consulted compete more or less keenly in the internal trade and this competition has been steadily growing and extending.' This statement is confirmed by the letters of the Banks of Bengal and Madras, and by the expressed readiness of one of the Exchange Banks to send out funds ' for local purposes.' It is within our own knowledge that one of them has been able to open branches in the Mofassal at places where the Presidency Banks are unable to work at a profit under the statutory restrictions imposed upon them; and we believe that this tendency to encroachment is in accordance with experience elsewhere. These considerations give point to the apprehensions expressed in earlier paragraph, and should at any rate be regarded as estopping the Exchange Banks from pleading for artificial methods of protection."

Extracts from the letter, No. 234, dated 8th June 1905, from the Bank of Bombay, to the Secretary to the Government of India, Finance Department.

"The Exchange Banks also deprecate competition by the Presidency Banks in exchange business, and unanimously point to the fact that for many years they have financed the export and import trade. They also particularly define the limits and scope of the business of the Presidency Banks. It has already been pointed out that the Exchange Banks have misconceived the nature of the proposals, and there seems to be no doubt that they have also formed an exaggerated opinion as to the extent to which the proposals, if sanctioned, will enable the Presidency Banks to enter into competition with them in exchange transactions. Remembering that the main object is not to obtain permission to operate in exchange, but to have power to borrow in London when necessity arises, and that the restrictions to be imposed are a Bank rate in India of 6 per cent. or higher, and Government approval of the form of the remittances in each case, it seems impossible to regard the proposals as conferring serious competitive power on the Presidency Banks. The remittance to and from India of the proceeds of loans cannot under any circumstances amount to more than a minute percentage of the total import and export trade. And the prospect presented by the Exchange Banks of the Presidency Banks bringing in money from London covering by sterling bills as soon as possible, repeating the operation and again covering, and so on, is opposed both to the spirit and letter of the proposals. There is, however, another side to the objection. While the Exchange Banks carefully allocate to themselves the exclusive privilege of financing the external trade, and to the Presidency Banks that of dealing with the internal trade and strongly protest against the Presidency Banks being allowed to encroach on their province as defined by themselves, they do not hesitate to compete with the Presidency Banks in the local and internal trade. The Exchange Banks do not mention this aspect of the case, except that one of them remarks that "since the new Currency Laws these Banks have been more disposed to send money to India for local purposes," but the fact is that all the Exchange Banks consulted compete, more or less keenly, in the internal trade, and this competition has been steadily growing and extending. The Directors maintain that in view of that competition the Exchange Banks are not entitled to plead competition with them in exchange business as a reason against the proposals."

Extracts from the letter, dated the 18th May 1905, from W. D. Cruikshank, Esq., Secretary and Treasurer, Bank of Bengal, to the Secretary to the Government of India, Finance Department, Simla.

"The Exchange Banks lay great stress on their ability to keep India amply supplied with funds, and are at some pains to define

what they term the legitimate functions of themselves and the Presidency Banks respectively,—those of the former being, they say, to finance the import and export trade, and of the latter to finance the internal trade of the country. The National Bank, which has already opened a number of branches in the interior, submits that the Exchange Banks with their large sterling resources have shown themselves ready and able to meet and even anticipate all India's requirements, while the Chartered Bank says: "Since the new currency laws these (Exchange) Banks have been more disposed to send money to India for local purposes, and the recent policy of the Indian Council in regulating the sale of their bills according to the requirements of trade has very much lessened the probability of extreme rates of interest for more than short periods." These Banks do not propose to confine their business within the limits they for the present define as legitimate, but they apparently consider that they should be free to finance internal as well as external trade while the operations of the Presidency Banks are to be so hampered in the field of local trade as to invite competition on favourable terms.

The Directors do not question the ability of the Exchange Banks to keep India supplied with funds, seeing that they have the resources of the London market to rely on; indeed experience has shown that these Banks are in a position to flood the Indian money markets with a superabundance of money or to curtail supplies at their pleasure. There is reason, however, to doubt the willingness of the Exchange Banks to import funds when the Secretary of State's terms for bills and wire transfers are not to their liking, or when a rise in the rates of interest in the Indian money markets would suit them. On such occasions they undoubtedly look upon the Presidency Banks as their legitimate local resort, while the Government of India are at the same time concerned, and not unreasonably, lest the accommodation claimed by the Exchange Banks should interfere with the sale of Council Bills. In such circumstances conditions of stringency become pronounced, the money market becomes strained, and it would undoubtedly be to the advantage of Government and the public if the Presidency Banks were permitted to relieve the strain by the prompt importation of funds from England."

Extract from "The Gazette of India", dated February, 16th, 1907.
Presidency Banks (Amendment) Bill.

The Honourble Mr. E. N. Baker, C.S.I., moved that the report of the Select Committee on the Bill further to amend the Presidency Banks Act, 1876, be taken into consideration. He said: "I will take the opportunity of offering some observations on one point which is not referred to in the Report,—I mean the question of allowing the Presidency Banks to borrow in London."

"Disappointment has been expressed by the Chambers of Commerce that this proposal, which had been under consideration

for some time, should have been abandoned, and some of them have asked for a statement of the reasons which have led to this result. The request is reasonable, and I shall endeavour to comply with it.

" At the outset I may observe that the question is one on which there is a good deal to be said on both sides. The financial advisers of the Government of India at different times have held different views regarding it, and we find such high authorities as Mr. Barclay Chapman and Sir John Strachey holding one opinion, while Sir James Westland held a contrary one, and Sir Clinton Dawkins only assented to the proposal on conditions which were quite unacceptable to the banks, a cautious person would probably be disposed to regard it with prudent reserve. But there is one authority which, since the proposal was first originated over forty years ago, has never wavered in his views on the subject, and that is the Secretary of State. Now I would remind the Council that the Secretary of State has access to the highest expert banking advice in London, *i.e.*, probably in the world, and it is a well known fact that, acting on that advice, each successive Secretary of State to whom the proposal has been submitted has refused to entertain it. This fact, I think, possesses no small significance.

" The reasons for not adopting the proposal are these. Firstly it is not clear that to give the Presidency Banks access to London would really increase the net aggregate facilities for importing capital into India. The Exchange Banks with their large capital and resources collected from many parts of the world, and free from the special restrictions which necessarily attach to the Presidency Banks, possess ample facilities for supplying all the capital that Indian trade requires. To admit the Presidency Banks into this class of business would add a new channel of import, but would in no way increase the supply of capital offering. If it is the case that the total funds imported to India in the busy season would not be increased by the means in question, it is preferable in the public interest that the business should be left to the Exchange Banks, rather than that the Presidency Banks should be enabled to embark upon it. This I shall now endeavour to show.

" I am not now referring to the risks which were formerly held to attach to engaging in foreign exchange business. That objection was a powerful one in former days, but with a stable exchange it has lost almost all its force. The objections to which I allude are of a different character.

" It is of course well understood that the Presidency Banks could not legitimately be allowed to receive deposits or engage in ordinary banking business in London. If, therefore, they were allowed access to London it would mean merely that they would be permitted to borrow in that market (subject to certain restrictions), to remit the funds thus borrowed to India, and, after the term of the loan had expired to return the money to London for repayment. In other words, all sums thus brought out to India by the Presi-

dency Banks would have to be remitted back to London, after a comparatively short interval. Now with the Exchange Banks that is not wholly the case. Part of what they import, no doubt goes back again but part of it at least remains in this country, even during the slack season. This has been shown, among other things, by the comparatively small reflux of gold which has taken place each year at the end of the busy season. The capital, which thus remains in India, and is not re-exported, is available for investment in our rupee loans, which are always floated in the summer months, and improves the rate which we obtain for them.

"If therefore, we allow the Presidency Banks to attract to themselves part of the business of importing capital which is now done by the Exchange Banks, one result would be that the issue price of Government loans would be likely to suffer.

"Another result of analogous character would be that the average rate obtained for the Secretary of State's Council drawings would probably be lowered. The necessity for returning the money to London when the busy season was over would depress exchange during the slack months. And this would not be counterbalanced by a rise during the busy months, for during the latter exchange is always high, and could not be raised appreciably higher without specie point. The net result for the whole twelve months would thus be a fall.

"A third objection is that a Presidency Bank which had taken a sterling loan for a fixed term might be forced to denude itself of resources in a time of stringency in order to repay it when due. This danger may be regarded as theoretical rather than practical; but it is a contingency which cannot be wholly overlooked in a general review of the position.

"Lastly we have to consider the effect on the Exchange Banks themselves of permitting the Presidency Banks to embark upon a limited competition with them in financing the foreign trade of the country. The Exchange Banks play a most important part in providing for the requirements of this trade, and hitherto they have, I believe, discharged their functions to the general satisfaction of the commercial public. They have, of course, no claim to be protected against competition in their business, but the competition must be on equal terms and they might fairly complain if they were required to enter the lists against a State-aided competitor. It has sometimes been affirmed that the use of the Government balance free of interest, and the general prestige which attaches to the position of State bankers are of comparatively little value, and are counter-balanced by the restrictions which are imposed by the law and the contracts made thereunder. I do not think that rivals in the same field can be expected to regard the matter in the same light. The Government balances are usually about 3 crores of rupees, say, five-sixths of the aggregate paid in capital of the three Presidency Banks taken together. It cannot reasonably be disputed that the free use of this very large sum

must be of the greatest value to the banks, and I may mention that occasions have occurred, not so very long ago, when the Government balances at one or other of the banks actually exceeded its whole cash resources. If the Exchange Banks are apprehensive of having to encounter such powerfully aided competitors, one cannot regard their apprehensions as altogether unreasonable.

" These, my Lord, are the reasons which have led to the decision not to pursue the proposal to give the Presidency Banks power to borrow in London. We all sympathise with the desire of the Chambers of Commerce to afford facilities for the easy provision of cheap capital; but it is open to doubt whether this particular measure would really increase existing facilities, while it is likely to be attended by drawbacks and disadvantages of its own.

" I do not think I need offer any remarks on any other provisions of the bill."

The motion was put and agreed to.

The Honourable Mr. Baker moved that the Bill as amended be passed.

The motion was put and agreed to.

The Council adjourned to Friday the 1st March 1907.

J. M. MACPHERSON,
Secretary to the Government of India,
Legislative Department.

CALCUTTA;
The 15th February, 1907.

Extracts from Prof. Keynes' note on State Bank (1913, Chamberlain Commission's Report).

" No important object would be served by allowing the Bank to compete with the Exchange Banks in attracting deposits in London. Nor is there any clear advantage (sufficient to counterbalance the opposition which would be aroused) in allowing it to enter into the regular business of trade remittance by buying trade bills in both directions. Such competition with the Exchange Banks is in no way necessary to the prime objects of a State Bank.

* * * * * *

" The London Office of the State Bank would be, therefore, a comparatively small affair. It would have no direct dealings with the public, only with the Secretary of State, the Money Market, and other Banks. The Secretary of State would continue to do his ordinary banking business with the Bank of England and

to maintain a balance there; and it would be the business of the London Office of the State Bank to keep him in funds. The main point for discussion is as to what the best machinery will be for carrying out the remittance transactions wherewith to keep the Secretary of State in funds.

* * * * * *

Some Adverse Criticisms.

"The Exchange Banks seem likely to oppose any substantial change in the present position. Their legitimate trading interest, however, are very fully safeguarded in the above proposals; and, as they will share in the advantage of increased stability in the Indian financial system, opposition will probably be mistaken even in their own interests. They will be but repeating the mistake which they made in 1892 in opposing the closure of the mints. It might have been expected that they would have welcomed a measure intended to introduce stability into their business, and which has in fact made the fortunes of all of them. But they held at that time that it was on the fluctuations of exchange and on the supposed bounty given to exports by a depreciating currency that they chiefly depended for their profits.

In 1900-01 the amount of consideration which should be paid to the exclusive claims of the Exchange Banks was the subject of some difference of opinion between the Government of India and the Secretary of State. The former wrote:—"We cannot see that the Exchange Banks make out a strong claim for protection, and a suggestion which has been made that a Central Bank should be bound to make any and all remittances through their agency is out of the question." And, later, in answer to the Exchange Banks' protest against "State-aided Competition":—"We could have wished that this contention of the Banks, which appears to us to be untenable, had been supported by some clearer indication of the actual manner in which the competition they deprecate may be expected to prove unfair and injurious." This comment is equally applicable to the evidence given to ourselves by Mr. Toomey and Mr. Fraser. As arising out of this evidence, it may be pointed out that the Exchange Banks have absolutely unrestricted opportunities for purely Indian business, that this side of their activities has very greatly increased, and that Mr. Toomey deliberately depreciated the importance to them of the business of attracting deposits in London for use in India, a part of their business on which they used greatly to pride themselves and which was at one time no small part of the ground on which they claimed special consideration."

Extracts from the evidence of Mr. J. A. Toomey and Mr. T. Fraser, Representatives of Exchange Banks, before the Royal Commission on Indian Finance and Currency, 1913.

Question No. 2810.—Would your objections be met to any appreciable extent if the State bank were precluded from accept-

ing deposits in London;—outside India?—(Mr. Fraser) That would not help. (Mr. Toomey) No, that would not help the situation at all. (Mr. Fraser) I do not think the Central Bank would ever come here for deposits. Our deposits in London are not such an all important item in our business and I do not think they would come here and compete.

Question No. 2811.—Am I to understand then that the exchange banks do not regard it as an important part of their business to attract funds in London and use them in India for financing trade? (Mr. Toomey) We take deposits in London, and we certainly look upon that as an important factor in our business.

Question No. 2812.—That part of your business would be left untouched?—Yes, but it is not such a very large item. (Mr. Fraser) The question, of course, is a central bank with power to borrow in London. The assumption is that they would either offer the same rate as we do or a better rate, and the chances are that they would offer a better rate than the exchange banks in all probability, having regard to the fact that they have the backing of the Government.

Question No. 2813.—If the State bank were precluded from attracting deposits outside India would that remove your objection?—(Mr. Toomey) No, not at all. (Mr. Fraser) Certainly not.

Question No. 2814.—Your reason for this answer is that that part of your business, namely, attracting funds in London for financing Indian trade, is not an important part of your business; is that it? (Mr. Toomey) We say that if the State bank had a London office and did exchange business we would be driven off the field.

Question No. 2815.—I understand you to say that, and I am trying to get at your reasons for saying it. I have pointed out one part of your business which would be unaffected, and I understand your answer to be that that is not an important part?—The London deposits are not so very important.

Question No. 2816.—(Chairman) In speaking of London deposits, do you mean English money or United Kingdom money?—Yes.

Question No. 2817.—(Mr. Keynes) You would, therefore, lay no stress upon the claim which has sometimes been made by the exchange banks that they play a most important part in financing Indian trade by attracting funds in London for that purpose?—We do not make a point of that.

Question No. 2648.—(Chairman) I want to draw your attention, with reference to something you have said, to an expression of the views of the Government of India. I have before me a letter from the Government of India to the Secretary of State, No. 56, dated 22nd February 1900. He was then being sent by the Government of India memorial from the exchange banks on this very question, and in that memorial, as quoted in paragraph 3 of the letter, it is stated by the exchange banks very much what

you have said to-day, that " for the last 40 years they have practically financed the whole " export and import trade of the ' country ' ", while the Presidency banks have devoted themselves entirely to financing the internal commerce." I desire to call your attention to the comments on that of the Government of India. They say, " We cannot for a moment admit the correctness of this assertion. Though the Presidency banks have hitherto been prohibited from engaging in exchange operations their resources (and through them the resources of the Government also) have been freely placed at the disposal of all sections of the commercial community, including the exchange banks themselves who now imply that they have financed the whole foreign trade with their own capital exclusively." Then they proceed to say, " On this point we may let the memorialists speak for themselves. In December last the associated exchange banks deputed two representatives (who are among the signatories of this memorial) to meet our honourable colleague in charge of the Finance Department and to urge upon the Government that any loans made by the Government should be made equally to the exchange and to the Presidency banks. When it was intimated that the Government would be unlikely to depart from their past practice of giving all loans through the Presidency banks, the deputation asked that the *Presidency banks should not be permitted to pass on the Government money except to the exchange banks, or at any rate that the exchange banks should have the first call on it to the exclusion of local banks and merchants, European and native.* A few weeks later the Government were suddenly and urgently pressed by the managers of two of the exchange banks to advance Rs. 30 lakhs to the Bank of Bombay ",—this was written in 1900. " It was represented that unless the money was forthcoming, there was danger of a serious commercial crisis, and of an important failure. The exchange banks, it was explained, would not provide money for their customers, though money could be obtained in a few hours under Act II of 1898, because they objected to buying telegraphic transfers at the rate at which your Lordship was then selling. Sooner than have recourse to this means of obtaining funds they frankly preferred to let the crisis come. Happily the crisis was averted, mainly, we believe, by the action of one of the Presidency banks." You observe that in that paragraph the Government of India challenges " ab initio " your claim that the exchange banks have successfully and completely financed the external trade of India?—No other body of people have financed the foreign trade of India. Might I look at the first point?

Question No. 2649.—Certainly (handing letter to Mr. Toomey). (After reading) Neither my friend nor I knew anything at all about this. The paragraph says, " the associated exchange banks deputed two representatives (who are among the signatories of this memorial) to meet our honourable colleague in charge of the Finance Department, and to urge upon the Government that any loans made by the Government should be made equally to the

exchange and to the Presidency banks."—We knew nothing about that in London and we should not uphold it.

Question No. 2650.—Sir Shapurji suggests to me that the London office did repudiate that?—I knew nothing about it. (Mr. Fraser) I was on leave at the time, and I knew nothing about it.

Question No. 2651.—(Mr. Gladstone) You were in India in 1900, were you not?—Not at that time; I did not go out till May 1900. (Mr. Toomey) I was not in India then. We certainly knew nothing about it, and we certainly would not endorse it.

Question No. 2652.—(Chairman) Now look at the last sentence of the paragraph. "The exchange banks, it was explained, would not provide money for their customers, though money could be obtained in a few hours under Act II of 1898, because they objected to buying telegraphic transfers at the rate at which your Lordship was then selling"? Before that it says "When it was intimated that the Government would be unlikely to depart from their past practice of giving loans through the Presidency banks, the deputation asked that the Presidency banks should not be permitted to pass on the Government money except to the exchange banks, or at any rate that the exchange banks should have the first call on it."—We know nothing about that, and we do not endorse it.

Question No. 2653.—Will you just look again at the last sentence?—I cannot imagine what the deputation consisted of. Certainly, the whole thing would have been repudiated by the London offices of the banks; do you not think so? (Mr. Fraser) Yes.

Question No. 2654.—I pass away from that. Are the exchange banks widely represented throughout India? (Mr. Toomey) They are fairly well represented. We have a good many branches up-country.

Question No. 2655.—In those branches you are competing with the Presidency banks, are you not? We have some branches where the Presidency banks are not represented.

Question No. 2656.—But in many cases you would be in competition with the Presidency banks? To some extent. (Mr. Fraser) As far as the Chartered Bank is concerned, we are only represented in two up-country branches. Our main object in going to Delhi and Amritsar, the only two points at which we are represented, was to foster our Manchester connection, which is part of our exchange business, and our sales of bar gold, which also we consider part of our exchange business. Both Delhi and Amritsar are good markets for gold. (Mr. Toomey) That is practically what we are there for too,—financing Manchester business chiefly.

Question No. 2855.—Would you say a 7 or 8 per cent. bank rate would help you?—It does not hurt anybody.

Question No. 2856.—It does not hurt anybody?—Not for the two or three months: (Mr. Fraser) If you make money very cheap

the native hangs on to his produce, and I do not think the merchant or exporter would thank you very much for that.

Question No. 2923.—Assuming a lower bank rate, is not that a benefit to trade?—I do not think people in India are looking out for lower bank rates. (Mr. Fraser) You can have such a thing as too low a bank rate, especially in India. When you have a very low bank rate it always encourages speculation, and it would very probably bring about a state of affairs which you would rather wish to avoid.

Question No. 2860.—Within the last ten years* there has been an extraordinary growth of deposit banking in India?—Yes, and the resources of the exchange banks have steadily grown.

Question No. 2861.—The figures published in the official statistics are that the Indian deposits of the exchange banks in 1901 were £7,900,000 and in 1910 £16,200,000.—There has been a steady growth of deposits.

Question No. 2881.—How do you feel in regard to these figures; in 1910 the total deposits, excluding public deposits, in India were about 55 millions?—What does that include?

Question No. 2935.—My suggestion was meant to refer not to your whole business, but only to the Indian part of it. Would it be possible to publish average balance sheets? I do not mean that you should publish them weekly, but that your six-monthly balance sheets should be average balance sheets for the six months and not balance sheets for a particular day?—I should think that could be done.† There is always a danger of too much legislation in banking, which we all deprecate. One does not want to be too much under the Government.

Question No. 2970.—You said this morning, in respect of your up-country branches, you do not come into competition with the Presidency banks? (Mr. Toomey) Not to any extent.

Question No. 2971.—Would you say,—it is a point which is bound to arise,—the same with regard to your operations in the Presidency towns?—We may do the same class of business as the Presidency banks, but there is room for all in these Presidency towns.

Question No. 2972.—I know that argument, and, of course, that would be the argument that would be used against you with regard to the exchange market probably. That is just the point I wanted to know, whether you are competing or not?

We have a local business as well as our exchange business; we have to run one with the other.

Answer to question No. 2621, Royal Commission on Currency, 1913.

In 1904 it was proposed (1) that the Presidency banks should be allowed, when the bank rate in India is 6 per cent. or higher, to

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* 1900 to 1910.

† But this has never been done.

borrow in London for the purpose of remitting funds to India; and (2) that the banks should be permitted to deal in foreign bills so far as is necessary to enable them to remit the money borrowed to or from India.

The powers were sought by the Presidency banks, but "the Government of India with the approval of the Secretary of State, declined to grant the powers sought by the Presidency banks, and the reasons for this decision were fully explained by the then Finance Minister, in his speech reported in the Gazette of India of 16th February 1907, of which we have sent you a copy. The exchange banks at that time felt it incumbent on them to oppose exchange banks at that time felt it incumbent on them to oppose so again on the same grounds, namely, that while we do not deprecate ordinary competition by competitors on the same level as ourselves, we strongly object to State-aided competition.....

The exchange banks have been financing the foreign trade of the country, in some cases for 50 years and more, and no complaints are heard as to any inefficiency or shortcomings on their part. They fill a most important place in the conduct of India's trade, and their record entitles them to every consideration on the part of the Government when dealing with any contemplated changes. The exchange banks do not fear competition by competitors on their own level, but it is easy to see that they could not compete successfully against a State bank with immense sums of public money at its disposal free of charge. Such an institution would have a most unfair advantage over the existing banks. It would create a monopoly in exchange banking, and by its being able to work on terms which the present banks could not touch, have the power to cripple them without having the power to take their place. It would be a distinct disadvantage to merchants in all parts of India that such a monopoly should be created, and that any weakening of the exchange banks should result."

152. The last extract is, to my mind, the biggest gem coming from those, who have enjoyed a virtual and effective monopoly for over fifty years, and who prevented that monopoly being broken either in the interests of financing for the capital requirements of this country, or lower money rates, or other banks. Those, who claim that loans from currency reserves should be given to them, or that they should have exclusive and preferential rights to such assistance, are appealing against a state-aided institution being set up for dealing in exchange, on the ground that it would create a monopoly, but the boot is on the other leg. Such a proposal has definitely emanated from our Committee eighteen years after these words were spoken. It has more than ordinary application to the present conditions and the fact that the majority of the members, including the Chairman, have sponsored the proposal of a state-aided institution with the monopoly of remittance business, would indicate how far the evil has increased.

CHAPTER XII.

FOREIGN BANKS—SOME STATISTICAL FACTS.

153. The only information with regard to foreign banks working in India, which is available to the public, is contained in the following table. Its paucity, its misleading character through everything being lumped together, and the absence of other details, detracts from its usefulness.

—	No. of Banks.	Capital and Reserve.			Deposits.		Cash balances at Head Offices and branches.	
		Capital.	Reserve and Rest.	Total.	Out of India.	In India.	Out of India	In India.
1	2	3	4	5	6	7	8	9
		(£1,000)	(£1,000)	(£1,000)	(£1,000)	(Rs. 1,000)	(£1,000)	(Rs.1,000)
1870 . .	3	2,004	180	2,184	2,688	52,31	2,611	61,13
1880 . .	4	2,532	541	3,073	7,305	3,39,88	2,046	1,80,09
1890 . .	5	6,384	1,699	8,083	30,734	7,53,60	5,310	3,50,43
1900 . .	8	11,803	3,971	15,774	54,263	10,50,35	11,945	2,39,58
1905 . .	10	15,294	7,219	22,423	94,536	17,04,45	21,504	3,78,13
1906 . .	10	15,866	8,421	24,287	104,457	18,08,73	18,436	5,10,59
1907 . .	10	16,671	9,320	25,991	94,778	19,17,01	14,860	5,66,20
1908 . .	10	16,692	9,149	25,841	103,289	19,51,52	16,665	3,78,63
1909 . .	10	18,952	11,211	30,163	116,021	20,27,42	18,121	4,15,86
1910 . .	11	21,734	12,610	34,344	134,166	24,79,17	17,810	4,38,51
1911 . .	12	22,600	13,001	35,601	157,764	28,16,90	22,136	4,56,91
1912 . .	12	23,657	13,980	37,637	172,028	29,53,62	23,082	6,14,82
1913 . .	12	23,640	14,185	37,825	181,138	31,03,54	25,688	5,88,24
1914 . .	11	22,815	14,157	36,972	164,970	30,14,76	40,694	8,39,37
1915 . .	11	22,681	14,112	36,793	179,948	33,54,56	45,111	7,60,13
1916 . .	10(*a*)	22,836	15,095	37,931	208,232	38,03,88	41,567	10,14,01
1917 . .	9(*b*)	18,384	14,298	32,682	228,001	53,37,53	54,765	33,74,37
1918 . .	10(*c*)	22,269	17,180	39,449	305,937	61,85,60	57,981	15,17,55

(*a*) Excluding the Delhi and London Bank which was amalgamated with the Alliance Bank of Simla, Ltd.

(*b*) Excluding the Russo-Asiatic Bank, information not being available.

(*c*) Including the Bank of Taiwan which opened a branch in India.

—	No. of Banks.	Capital and Reserve.			Deposits.		Cash balances at Head Offices and branches.	
		Capital.	Reserve and Rest.	Total.	Out of India.	In India.	Out of India.	In India.
1	2	3	4	5	6	7	8	9
		(£1,000)	(£1,000)	(£1,000)	(£1,000)	(Rs. 1,000)	(£1,000)	(Rs.1,000)
1919 . .	11(*d*)	31,931	21,139	53,070	433,001	74,35,90	63,571	29,98,32
1920 . .	15(*e*)	54,198	36,019	90,217	513,671	74,80,71	84,197	25,17,53
1921 . .	17(*f*)	66,369	45,263	111,632	526,473	75,19,61	82,318	23,56,74
1922 . .	18(*g*)	66,541	45,680	112,221	527,348	73,38,44	81,654	16,17,63
1923 .	A 5	9,644	8,767	18,511	62,386	51,29,78	9,425	9,78,23
	B 13	73,394	48,198	121,592	832,560	17,14,50	108,490	4,69,63
1924 .	A 5	9,644	10,063	19,707	65,786	48,93,45	9,703	9,71,18
	B 13(*h*)	62,894	47,863	110,757	778,896	21,70,03	104,945	6,65,51
1925 .	A 5	9,644	10,392	20,036	75,604	50,57,43	11,351	6,49,72
	B 13	64,586	53,689	118,275	847,957	19,97,14	110,407	2,91,89
1926 .	A 5	9,644	10,471	20,115	73,533	51,07,24	14,234	7,32,99
	B 13	67,769	60,119	127,888	896,353	20,46,98	122,052	3,39,85
1927 .	A 6	9,769	10,878	20,647	71,640	49,33,33	8,836	5,40,14
	B 12	83,027	77,246	160,273	1,214,315	19,62,90	195,263	2,73,99

A.—Banks doing a considerable portion of their business in India, *i.e.*, having 25 per cent. or more of their deposits in India.

B.—Banks which are merely agencies of large banking corporation doing a major portion of their business abroad, *i.e.*, having less than 25 per cent. of their deposits in India.

(*d*) Including the Sumitomo Bank which has a branch in India.

(*e*) Including the Imperial Bank of Persia, the National Bank of South Africa, the P. & O. Banking Corporation and the Banco Nacional Ultramarin.

(*f*) Including the Nederlandsche Handel-Maatschappij and the Nederlandsch Indische Handelsbank.

(*g*) Including the American Express Company Incorporated.

(*h*) Excluding the National Bank of South Africa but including Thomas Cook & Son (Bankers).

The Director-General of Statistics says:—

"The returns of Exchange Banks have been classified from 1923 into two groups, namely (A) banks doing a considerable portion of their business in India, and (B) banks which are agencies of large banking corporations doing a major portion of their business abroad."

The official statistician does not know what an agency is, and how a mere "agency", like Lloyds, can do lot more work than

important local institutions, in spite of the fact, that " the major portion of their business is done abroad ". This Government publication does not inform us, which are the banks " doing a considerable portion of their business in India ". What is a considerable portion? Is it a considerable portion of money raised, or is it a considerable portion of loans given out, or, again, of cash kept against obligations? It is, of course, well known, that foreign banks have, in the matter of information regarding their activities, deprecated the curiosity and inquisitiveness of the Indian public. I regret, that at no time did they think it necessary to place this information even before the Central Banking Committee.

The number of branches of foreign institutions in India would be best seen as follows:—

Year.	No. of Banks.	No. of Branches.
1914	11	44
1928	18*	86

154. *Banking service or economic invasion.*—If the mere increase of banking figures could signify progress, the amounts in the foregoing tables might be a cause for rejoicing. According to the foreign " experts ", this was the case, but to my mind, the increase gives room for great apprehension. I cannot regard the arrival of foreign banks in this country in large numbers through the open door, and their entrenching themselves in powerful positions, in the light merely of an increase of banking service.† I regard it as part of the economic invasion of India. The foreign banks are not, by any means, taking up the position assigned to them in any well considered national policy. They are creating an adverse vested interest, which it would be very difficult for India to deal with. Already, the practice of free entry and free trade in the past has brought to the forefront the question of trading ' rights ' in their application to banks.

It is the profitableness of the field,‡ which has attracted them and which is keeping them here. The depression, through which the world is passing, and particularly the reduction in trade all over, might for the moment, have made it appear, that the profits are gone. It was definitely the suggestion of Sir Norman Murray,

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* (According to Bombay Provincial Banking Committee 19 in 1930.)

† " According to point 1 of the Committee's conclusion, it is considered not desirable that the country should be dependent on the facilities afforded by non-Indian institutions for the financing of foreign trade. No arguments for the opinion are given. The only matter-of-fact argument which we can imagine, lies in the fear that the non-Indian institutions could at any time withdraw from the country, thus leaving India deprived of agencies for the financing of its foreign trade. We consider this fear to be without any foundation."—(Foreign " Experts " Report, page 7.)

‡ " By this absorption," said Mr. Beaumont-Pease in 1924, " Lloyds Bank for the first time in its history, becomes directly interested in places outside Great Britain.....There are prospects of interesting profit and of opportunities for giving unusual facilities for those interested in trade between England and these countries which I hope may be realized."—(Baster, p. 234.)

Managing Governor of the Imperial Bank of India, before the Royal Commission on Currency in 1925, that the field was very profitable.

" *Chairman:* Could you amplify that a little by telling us which of these constitutes a real practical limitation upon what would be the ordinary current business of an unrestricted bank and to what extent it imposes a real practical limitation of such business?

Mr. Norman Murray (Joint Managing Governor of Imperial Bank): To begin with, the restriction on exchange business debars us from what is a very profitable business. Outside that the restrictions do not put us to any very great difficulty."*

Every one, except the representatives of the ' Exchange ' Banks, have admitted that the field is profitable, and about them it must be said that " Mylady protesteth too much."† In view of this, what guidance can be secured from the following remarks of the Chairman of the Mercantile Bank of India in 1929?

" I attribute this reduction in profits chiefly to the suicidal competition that continues between Exchange Banks in India. I referred to this competition last year and said that, after taking into account brokerage and heavy expenses, the margin of profits on our exchange operations was disappearing; and I regret to say that, as the result of the past year, I can see no improvement in the position which is such that, but for our local business, we would lose very little by declining to do any exchange business."

The only interpretation, that could be put, is that, so far as the British banks are concerned, where there were four, there are now eight, and powerful foreign interests have also grown up, so that the individual scale of profit, known in olden days, so far as the foreign exchange business is concerned, cannot now be realised. But, is it suggested for a moment that the total profits of all banks from this class of banking are not high?

155. That there is more money to be made by penetrating inland, and getting hold of as much internal banking business as possible,

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* Question 9549, Royal Commission on Currency, 1925.

† Mr. Baster, the famous writer on " Imperial Banks ", says:—

" The finance of Indian external trade, which is more profitable and less risky, is, of course, adequately, if not excessively cared for already by the quite specialised group of ' exchange ' banks, of which British representatives again are most numerous. But it is significant that all the exchange banks are capitalised from and dependent upon external monetary centres, so that the control of these institutions by a local central bank raises some difficult problems. Every bank of importance in the Dominions has an office in London, and, what is noteworthy from the point of view of British financial consolidation, the banking business of the entire empire is monopolised by London banks. It explains the desire in South Africa for a really ' National ' bank. Important sections of local opinion feel somewhat uneasily that to have nearly the whole of the Union's banking transaction by only two large institutions controlled from the other side of the world is an anomalous position. The Canadian and New Zealand farmers have long had the idea that a bank in their countries, modelled on the Commonwealth Bank, would solve all their troubles."

appears to be the dominant feeling in the minds, at all events, of the English banks. This factor alone can explain the threatened invasion of India by one of the Big Five, which was responsible for bringing about the amalgamation of the Presidency Banks.* This is authoritatively brought out in the circular to the shareholders of the Bank of Bombay under the signature of Sir Robert Aitken, dated 1st of December 1919. It says:—

"The history of the banking world for some years past, particularly in England and, to some extent, in India, spells amalgamation, which is synonymous with strength. It has been borne upon your Directorate that there is every probability that powerful banking interests in England, represented by the large London Joint Stock Banks, may at an early date obtain control of certain Indian banking interests, more particularly those of certain Indian Exchange Banks, and to combat this and to retain their prominent position it becomes absolutely necessary that the three Presidency Banks should consolidate by amalgamation". The unwritten history of banking in India would disclose that there were also active negotiations for the acquisition of the Alliance Bank of Simla by powerful British interests. It would explain the actual entry into India of Lloyds, who bought out Cox's & King's, but, who are not content to act merely as army bankers and tourist agencies, as the old institutions did. The Lloyds Bank have taken their Indian business very seriously. I am credibly informed by men, who ought to know, that they are offering most serious competition to the Imperial Bank of India and other banks in some places. The feeling, that there is money to be made in India in the banking field, must also explain the controlling interest acquired in Grindlay & Co., by the National Provincial Bank, another of the Big Five in the United Kingdom. The importance of internal business in the minds of London bankers was illustrated, when the P. & O. Bank acquired the Allahabad Bank,† and

* "The integration movement amongst British and Colonial banks can be divided into several parts. Amalgamations amongst the Colonial banks proper need not be considered from the present point of view, except to notice that in some cases they were defensive measures adopted to resist 'foreign' incursions. The attempted combination in South Africa after the advent of the London and South African Bank and the Standard Bank in the 'sixties' and the amalgamation of the Presidency banks on the threatened entry of more foreign capital, were clearly of this character."—(Baster, "The Imperial Banks", pages 220-221.)

"It is generally understood that the original scheme of Lloyds involved the establishment of close connections with one of the Indian and one of the Colonial Banks, but that portion of the scheme appears either to have been dropped or to have been vetoed by the authorities. So far as can be gathered, however, the restraint has come not so much from the Committee of the Treasury as from quarters directly connected with the countries in which the banks concerned conduct their operations."—Banker's Magazine, August, 1918.)

† "At the same time, as regards the P. and O. Bank itself, it is tempting to inquire why the Chartered Bank ever supported this institution, if it lost valuable business connections through it, particularly as the new concern was floated at the peak of the boom and in consequence was not strikingly successful."—("The Imperial Banks" by Baster, page 232.)

when the Chartered Bank, in its turn, acquired them both, bringing under a single combination, combined capital and reserve of £10½ millions!

156. The lure of India has equally attracted in the field some of the other giants in the banking world. The International Banking Corporation and the American Express Company have respectively been absorbed by the National City Bank of New York and the Chase National Bank of the City of New York, two of the biggest banking institutions in United States of America, the land of large size enterprises. The two Dutch banks also represent powerful foreign interests. The Japanese system of penetration, in which trade and finance frankly go hand in hand, accounts for the presence in India not only of the great Yokohama Specie Bank, but of two more. The Hongkong Bank, though founded in the colony of Hongkong, enjoys in India prestige and position, which are the despair of any Indian bank. Other countries represented in the field are France, through, the Comptoir National D'Escompte de Paris, and Portugal, through Banco Nacional Ultra Marino. The Editor of the "Indian Finance" raised a pertinent question as to the countries, with whom India has considerable dealings, who are not still represented. It was pointed out, that the total trade with Germany was over Rs. 45 crores, with Belgium about Rs. 20 crores, and with Italy about Rs. 20 crores. Who knows, whether these countries have not got up a programme for coming in to share the spoil? With regard to Germany, I was reliably informed by a friend that, owing to some kind of working agreement with some of the interests already represented in the Indian banking field, the D class banks in Germany were not free to open in India but one of the others—the middle sized ones, may look in here any moment. Any one familiar with the methods of European business, would not question this fact, if it came from an authentic source. Facts of this kind, however, in the world of high finance, do not easily leak out. They could not be expected to be brought up voluntarily by parties concerned before an Enquiry Committee, from whose report some apprehension with regard to interference with the existing conditions was entertained.*

157. The object of pointing out the strong position of foreign interests in this country is to show the difficulty, with which Indian interests would have to contend in the same field. It is to show very roughly the size of the institutions, which would have to come into existence, and how, even if they had the capital, they would lack the reserves as well as the prestige acquired by the older ones. It is to show, that the foreign institutions are not likely to countenance the entry of Indian institutions in the field, both of

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*The Chairman of the Mercantile Bank of India at the last annual general meeting, said:—

"The report of this Central Committee is expected to be published shortly, and we await this with interest, hoping that, as the result of the report, no action of a political nature will be taken to interfere with the service the British Exchange Banks have rendered to the trade of India for more than half a century."

foreign exchange and of internal banking, where they have established themselves, without giving a fight. It may be pointed out, that these institutions are not merely capable of combining, but are as a matter of fact used to working in concert through powerful associations. It cannot be expected, that some of them would deal with Indian rivals more considerately than they have dealt with a business rival in their own country. The method of amalgamation, and the extent of amalgamation by the Big Five, caused anxiety in the United Kingdom itself, and caused also embarrassment to Government. After a survey of the indigenous banking system, which is receding before the attack of new conditions, and of the Indian joint stock banks, which are struggling for existence, the contrast in the contemplation of these large powerful foreign interests is so marked, that no one can regard the present position in banking in India without grave anxiety.

158. *Relation of trade and banking.*—The volume and value of internal trade in relation to foreign trade was stated differently as fifteen to twenty-four times that of foreign trade. The opportunity, therefore, for profitable banking was there in the internal trade. The volume of foreign trade with different countries is as follows:—

Total of imports and exports for the year 1927-28.

	Rs. (in lakhs.)
United Kingdom	1,97,08
United States	56,41
Germany	47,57
Japan	46,91
Netherlands and its Colonies	31,48
France	20,27
Italy	19,63
Belgium	18,40
China (exclusive of Hongkong and Macao)	8,88
Switzerland	2,68
Others	1,19,69
Total	5,69,00

While the export is of items produced from Indian soil by Indian labour, and the import is of articles, the largest bulk of which is used for the consumption of the Indian population, it is unfortunate, that the actual handling is very largely in foreign hands.

A noteworthy feature with regard to the growth and the operation of foreign banks, is the parallel between India's trade with different countries and the banking interests of these countries located in India. The growth of foreign banks in India and the growth of their operation through penetration in the interior,

cannot be viewed with satisfaction as indicating progress of banking. In some quarters in India, it is usual to rejoice at the growth of trade, both in imports and exports, and to take this growth as a sign of improved prosperity. It may be the reverse, particularly, where articles are imported, which were hitherto manufactured and supplied locally, or where important items, like manure material, are exported, or raw material, which could be worked in the country and of the finished product, of which there is a demand. Increased imports may actually represent unemployment and displacement in economic life, beyond the capacity of the men so displaced to adjust themselves. Similarly, the growth in the operation of foreign banks in India is not the growth, over which there should be any rejoicing. It connotes, in the first instance, that the internal system of indigenous banking, which was serving the country, has broken down and that Indian institutions on modern plan are not ready to take their place, or do not find, that they can expand on account of heavy competition. In either case, the growth of foreign banking in India is a symptom of malaise, and not a symptom of robust health. It bodes no good to Indian economic interests, in so far as foreign banks have hitherto made it their business to help the nationals of their country in their trading operations. It would be found, if a research could take place, that during the same period, in which foreign banking in India has expanded, the trade in foreign hands has also increased.

159. *Indian share in India's foreign trade.*—It was already well known, that the Indian position in the matter of import and export trade was not advancing, and that Indian share was very small. It was through the enterprise of the Indian Chamber of Commerce, Calcutta, and their able Secretary, Mr. Gandhi, that a definite calculation was put forward, giving the figure at 15 per cent. of the total in Indian hands. The 'Exchange' Banks realised, that this was going to be fatal to their suave words to explain away a difficult situation. They promptly issued to our Committee a statement giving "*percentages* of India's foreign trade in terms of bills passed through the Exchange Banks during the years 1925 and 1929 respectively."! This statement, which was signed by the Chairman of the Exchange Banks Association, Calcutta, contains the illuminating remark "certified that the foregoing *percentages* have been compiled from figures confidentially submitted by the Exchange Banks concerned." When I pointed out, that it was not percentages, which were wanted, but absolute figures, the request for absolute figures was refused. It is not, that the absolute figures did not exist, since the percentages could only be calculated from them. On the propriety of their withholding relevant information, which is already in their possession, before a Committee appointed at the request of the Indian Legislature, I shall not say anything. I can only interpret the figures given by them on the basis, that there was some danger to their logic in refuting the conclusions of the Calcutta Indian Chamber of Commerce, if the absolute figures had been made available. The abso-

lute figures would have disclosed to what extent the import and export trade of India becomes a subject of bills passing through the 'Exchange' Banks. It is understood, that there are important firms, who keep their own books both ways and do not pass their transactions through the foreign banks. It is further understood, that there are English firms, on whose behalf the 'Exchange' and other banks do a considerable amount of acceptance business in London, and that the figures of bills that are discounted in London would not be included in these returns. It is further a commonplace, that there are many firms of foreign indentors and commission agents, who arrange the transaction and earn their profits, but who get the bills drawn in the name of their Indian constituents. These are only some of the considerations, which would vitiate an attempt to determine the share of Indians in import and export trade from an examination of bills alone, even if the absolute figure of bills were produced, unless the total of bills, either way, tallied approximately with the total value of trade. An attempt of the kind, which the 'Exchange' Banks have made in dealing with the question by percentages, is absolutely misleading, and I am sorry, that my colleagues on the Committee did not insist on their absolute figures being brought out. They did not regard the refusal for giving information as a lack of courtesy to the Committee, or the method of arguing from percentages as faulty.

The development of India's resources, of India's trade, and of India's banking, in the form in which it has taken place, cannot give satisfaction, as the control and direction of such development are not in Indian hands. The advantages from such development do not come to India. If, instead of importers and exporters coming and settling in India, and dealing direct with the consumer, on the one hand, and the producer on the other, or as near these classes as they can, Indian trading firms had established themselves abroad for the sale of India's produce and for the importation of what India actually needs from the manufacturers of other countries, if, instead of foreign banks establishing themselves in India and penetrating far inland, Indian banks had established themselves in foreign countries in sufficient strength for rendering service to Indian clientele, the result would have been one, which would have secured for India not only profit, but a position of pride.

160. The process in India has been definitely the reverse. Nothing is more marked in the organization of foreign trade in India, since the beginning of the twentieth century, than the elimination of the Indian middleman. Foreign manufacturers have opened offices in India, or, have pooled their resources for creating powerful agents, or sent out an ever-increasing army of canvassers and commercial travellers. This machinery is reaching farther inland. It would be wrong to say, that this involves an economic gain from the abolition of the middleman, who was engaged in this work before, since the charges payable in respect of that service have still to be paid, and to be paid to the foreigner. Contrariwise, in the export trade, Indians have been dislodged not merely

from the position of shippers at the main ports, but from the position of middlemen, engaged in collecting commodity in the interior and moving it into the ports and central markets. It would be a fallacy to suppose, that this is done on a basis, which brings in more money to the Indian producer. On the contrary, as indicated already, a large number of Indian traders engaged in this work being eliminated, the factors, which led to competition and to the producer getting a competitive price, have weakened. The profits, again, have been diverted from Indian into foreign pockets. The volume of import and export trade has increased both in quantity and in value, since the beginning of the century, but the part, which the Indian plays in it, has continued to become less dignified and less profitable. The financing of this trade takes place by means of deposits in foreign banks, representing the savings of the people of India, and India suffers a double injury by the loss, both of trading profits and of banking profits, under a system, which has come to be established. The Indian demand for serious change in this system is being strenuously resisted by the foreign interests concerned, and in this resistance the remarkable unanimity of all foreign witnesses before our Committee could not but be noted.

161. *Disposition of available finance for trade.*—Demoralisation in thought in India on economic issues seems to have gone very far. Otherwise, one cannot conceive, how an Indian writer could come to note the growth of Indian deposits in foreign banks as a sign of strength for future economic life, in so far as it is proved, that the Indian money is now sufficient for the finance of foreign trade in India, without the assistance of periodical funds, which were brought forth from England.

The idea, that the foreign banks are bringing cheap money into India for the finance of Indian trade is an exploded myth. From official documents quoted in Chapter XI, it will be noticed, that it was seriously doubted as early as 1900. It has never been subsequently emphasised by any one and has been completely disclaimed by Mr. Beaumont-Pease, Chairman of the Lloyds Bank. The misconception in India is two-fold. One is the belief, that the import and export trade of India, its foreign trade, should be financed by India. The import of India is the export of some other country and *vice versâ*, and the foreign trade of India is equally the foreign trade of some other country. The financing has, therefore, got to be done not completely with India's resources. The use of a country's resources in the direction and control of another country, with which it is trading, is not likely to lead to a favourable bargain for its nationals in the matter of trade as well as banking. Such an argument ignores the essential principles of national economy. If these principles are acknowledged at all, the handling of one country's resources by another is pernicious and inflicts a perpetual loss and humiliation. If, on the other hand, these considerations do not weigh with a man, then the idea, that India has become free from the use of foreign capital and,

therefore, self-sufficient is ridiculous. Why should India be free from foreign capital now, and what does it matter, if profits from India flow abroad and enrich the economic life of other countries, who build up their industries and other activities? After all, the products of those industries reach back to India, and the Indian consumer thus vicariously enjoys the fruits of what emanate from his own exertions!

India is a country, in which money for safe custody in the hands of the foreigners, is cheap. It is cheaper than in many other countries. Side by side with this fact, must be noted the fact that capital is scarce, that it is considered shy, that it is dear, that usury exists, that laws have had to be made in restraint of the lender, that the Kabuli is doing a flourishing trade, that, industrial venture of a suitable character does not find sufficient or timely accommodation, that there are periods of great stringency in the money market, and that the average bank rate is higher than that in many other countries.

162. To an economist, these factors go to indicate a very alarming situation. They at once raise a problem, and they point to the need for a searching enquiry. Economic life, when it works in such separate compartments with such an imperfect mobility of loanable capital, cannot be regarded as properly organized. One class receives accommodation on much more favourable terms than other classes. The class, which is perhaps in great need, is the most helpless. The banks, which cater for the few, *viz.*, the foreign banks, work under advantageous conditions. Those, to whom the large mass of the population look up for accommodation, work under least favourable conditions. The problem is not merely therefore of greater co-ordination between the various agencies, but it is of completing the economic cycle. The savings of India ought to be collected out of the hands of those, who save, in safe channels, and made available again, with due safeguards, to those, who need the money.

The nature of the business, which involves the credit cycle, has to be examined. Banking, which merely lends out money on proper security, is no better than pawnbroking. Credit means the capacity for payment, involving also the willingness to pay back, or ample means for enforcing payment. The credit instruments, with which the work of commerce is carried on in the world, are in essence the link between the producer and the consumer. Goods, that are destined for consumption in India, when the consumer has got an effective demand, *i.e.*, money to pay, could be handled by all intermediaries, without the handling of any money, by credit, *i.e.*, on the basis, that at last the payment will be forthcoming in due course. In India, foreign trade looms large on the one hand. Cash transactions are considerable on the other, and India's old claim of self-sufficiency, though considerably broken down with regard to the village unit, still survives in many important respects. Even where there are movements for goods for internal consumption, the process of orderly marketing is not there.

The numerous parties concerned are not in sufficient co-ordination, and what is worst, the chief link with the final consumer is the small man. Any assurance by the small man, that in due course the payment would be forthcoming, is not of any value to the larger man, who collects produce, or manufactures and distributes it. The cycle cannot be, therefore, completed. There are missing links in the credit chain and India suffers therefrom. As if this weakness were not enough, there is further the interposition of powerful and dominant foreign interests, who distort all notion of foreign trade, by picking up the produce at the stage of primary production and attempt to bring foreign manufactures practically at the door of the consumer. They have thus driven a powerful and impenetrable wedge in the economic life of the country and created a situation, in which orderly development, both of trade and banking, in the best interests of the country is not possible.

163. *Working of foreign banks examined from some statistics.*— For the following information the Committee is indebted to the Association of Foreign Banks in India:—

The following consolidated return represents approximately the position as regards operations in India, of principal non-British Exchange Banks, at 31st December 1929:—

(*All figures are in Lakhs of rupees.*)

Deposits in India.

	Current Accounts and Money payable at Call.	Fixed and short Deposits.	Total.	Percentage.
Non-Indian . . .	187	282	469	55·5
Indian	195	181	376	44·5
Total .	382	463	845	100

Advances in India.

Loans, Cash Credits, Overdrafts and Local Bills Discounted (excluding Bills of Exchange).		
Non-Indian	429	47·4
Indian	477	52·6
Total .	906	100
Investments in Government and other Indian Trustee Securities and Indian Treasury Bills		172
Bills of Exchange—		
Bills in transit to London and elsewhere overseas		3·36
Bills already discounted in the London Market whose proceeds await remittance to India.		30
Outstanding Loans and Overdrafts running from outside India.		5·95

The following consolidated return represents approximately the position, as regards operations in India, of eight principal British Exchange Banks, at 31st December 1929 :—

(All figures are in crores of rupees.)

Deposits in India.

	Current Accounts and Money payable at Call.	Fixed and short Deposits.	Total.	Percentage.
Non-Indian . .	13·8	9·0	22·8	39·4
Indian . . .	16·6	18·5	35·1	60·6
Total .	30·4	27·5	57·9	100

Advances in India.

Loans, Cash Credits, Overdrafts and Local Bills Discounted (excluding Bills of Exchange, Investments in Government Securities, etc., and Balances with Imperial and other Banks).

		Percentage.
Non-Indian	10·5	28·6
Indian	26·2	71·4
Total .	36·7	100
Investments in Government and other Indian Securities and Indian Treasury Bills.		24·6
Bills of Exchange—		
Bills in transit to London		6·4
Bills already discounted in the London Market whose proceeds await remittance to India.		...
Outstanding Loans and Overdrafts running from outside India.		16·1

The above two statements, it may be noted, constitute the sum total of the information with regard to the operations of foreign banks in India made available to the Committee, over and above what is published in the Government publication, known as " Banks in India ". The statements are unsatisfactory in many directions. They give the position as on the 31st of December 1929, one date of the year and in the middle of the busy season. If the statement was not specially prepared for the Banking Committee, then it might have been given for several years prior, even if it were for 31st December. If it was specially prepared, it was a grave omission that the statement was not given for more than one date in the year,—an omission, which I regard as more serious, because the attention to it was drawn by me early in the examination of the Committee. More than one date were wanted for eliminating the question of seasonal movements, the importance of which in the money market in India and in the operations of the ' Exchange ' Banks in particular, has been always emphasised. In a statement, which refers to one date only, and which is prepared with the object of disarming the general criticism, that foreign banks were financing their own nationals with Indian money, one does not know to what extent the process of window-dressing, not at

all unusual everywhere in the case of banks, has been followed. The value of the statement is, further detracted by the use of the words "approximately" and "principal" in the headings, leaving, therefore, room for some doubt as to the final figures. The statement regarding non-British banks does not even say, how many banks are included! I do not know, whether the word "Indian" is used in the sense of the natural-born Indian, or domiciled Indian, which includes European, or Statutory Indian. Nor is it clear, whether companies registered in India, the controlling interest in which is in the hands of foreigners, or the management of which is in the hands of the foreigners, are put under the heading "Indian" or "non-Indian".

164. The statement of the eight principal British banks shows, that on that one date, advances and investments in India exceeded deposits in India by Rs. 3·4 crores. With regard to the outstanding loans and overdrafts coming from outside India, amounting to Rs. 16·1 crores, it is not clear, whether these loans and overdrafts were used in India for Indian purposes, or, whether they constituted a part of the general operations of the banks all over the east. Unless one can suppose, that there were special circumstances in 1929, or special causes referring to the dates selected for the purposes of this statement, we would find it difficult to reconcile it with a clear statement of Mr. Beaumont-Pease, the Chairman of the Lloyds Bank, to the effect that, "The total of deposits received in that country largely exceeds the amount of our advances and no portion of our deposits at home is used for the purpose of making loans in India."

It would be unfortunate, that after an enquiry like ours, which can only be set up at long intervals, the main question, whether the foreign banks bring in capital to this country permanently, or for short periods, or whether they do not use permanently or for short period, capital collected in this country for outside places such as Ceylon, Singapore, Java and Far East, cannot be answered. It cannot be answered on the basis of any actual statistics available.

165. One does not know, what reliance is to be put with regard to the words "cash credits and overdrafts" used under advances. Do they mean actual money advanced, or do they mean the amount of credit authorised as on these dates? Nor can one find from the statement supplied, in how many cases the cash credits and overdrafts to Indians were definitely secured by tangible collateral, and in how many cases, in the case of the advances to foreign firms, the cash credits and overdrafts were clean advances. There is a peculiar form of cash credit by foreign banks for the purpose of enabling large firms to buy produce in the interior. In most cases, there is no security taken against these cash credits. There is a promissory note, and sometimes there is a bond.* It was admitted by the representatives of the 'Exchange' Banks, that the security does not exist at the time, when the cash credit is opened.

* The witnesses representing 'Exchange' Banks promised to send a copy of the bonds used. As it was not circulated, I presumed it was never received. But a copy was sent to me after the report was in print.

The authority to the parties to draw money is absolute, and it is only when they send in particulars of purchases made by them, when the commodities are in transit, or, are being dealt with, prior to their arrival at the principal market and prior to their shipment abroad, that the security is created against the moneys, already drawn out, long before the bank receives such particulars. This is undoubtedly a form of highly developed credit and from that point of view, there would be much in it to commend, but the unfortunate position is that the benefit of this system is derived very largely by foreign firms. The convenience offered and the cheapness going to foreign firms, make it difficult for Indian firms, who cannot avail themselves of it to the same extent, to compete.

The statement submitted does not indicate the amount of local bills discounted in contrast with cash credits and overdrafts, and it does not therefore enable constructive suggestions to be made with regard to the creation of a bill market in India.

166. The composite statement further omits all reference to the amount of overdrafts, which some of these institutions are enjoying from the Imperial Bank, and it omits the figures of cash, which they hold against their liabilities. Had the figures of cash been given even for the British and non-British groups, it would have disclosed valuable information with regard to their operations. Lumping of cash figures for several institutions together has very little value. It certainly conceals the weakness of one or more of those institutions and prevents public opinion being brought to bear on the subject. The following statement of the cash held by foreign banks as a whole against their deposit liability as a whole, would be of interest:—

Year.	No. of Banks.		Deposits in India. (Rs. 1,000)		Cash Balances in India. (Rs. 1,000)
1870	3		52,31		61,13
1880	4		3,39,88		1,80,09
1890	5		7,53,60		3,50,43
1900	8		10,50,35		2,39,58
1910	11		24,79,17		4,88,51
1913	12		31,03,54		5,18.24
1919	11		74,35,90		29,98,92
1920	15		74,80,71		25,17,53
1921	17		75,19,64		23,56,74
1922	18		73,38,44		16,77,63
1923	A. 5	18	51,29,78	9.78,28	
	B. 13		17,14,50	4,69,63	
			68,44,28	9,71,18	14,47,86
1924	A. 5	18	48,93,45	6,65,51	
	B. 13		21,70,03	6;49,72	
			70,63,48	2,91,89	16,36,69
1925	A. 5	18	50,57,43	7,32,99	
	B. 13		19,97,14	3,39,85	
			70,54,57	5,40,14	9,41,61
1926	A. 5	18	51,07,24	2,72,99	
	B. 12		20,46 98		
			71,54,22		10,72,84
1927	A. 6	18	49,23,33		
	B. 12		19,62,90		
			68,86,23		8,13,13

The proportion of cash to liabilities in India gives the following percentages:—

	Exchange Banks:— 1. Banks doing a considerable portion of their business in India.	2. Banks, which are merely agencies of large banking corporations, doing a major portion of their business abroad.
	Per cent.	Per cent.
1870	117	...
1880	53	...
1890	46	...
1900	23	...
1910	16	21
1913	19	17
1919	35	67
1920	30	58
1921	28	43
1922	19	33
1923	19	27
1924	20	31
1925	13	15
1926	14	17
1927	11	14

It will be noticed that the proportion has been consistently brought down. Even before the war, it was an object of serious comment, and the methods of operation of these foreign banks in India are obviously not calculated to strengthen the Indian banking system. No consistent account exists of the effect on the Indian money market of this policy on behalf of the foreign banks. But it is known, that they experienced acute difficulty at the beginning of the war and had to be helped. They have not the excuse for keeping lower cash, that, by doing so, their profits would be reduced, since their profits are already very high. We are told, that they have investments in Government securities and have holdings in Treasury Bills. The total figure alone is available for that particular date only, *viz.*, 31st of December 1929. Of no other date, is there any figure available in published information, and it is difficult therefore, to draw any general conclusion modifying that, which is justified by the very low percentage of cash, which they keep in this country, *viz.*, that they are a source of weakness to the Indian money market and are working on the basis of perilously low cash.

167. The statements given have lumped together the operations of the several banks. The appointment of the Banking Committee in this country did not come off suddenly, but was indicated in discussions, which took place many years ago. There was a resolution in the Imperial Legislative Council by the Hon'ble Mr. (now Sir) B. N. Sarma in 1919. Thereafter, reference to it occurs in

several public documents and pronouncements. It became the subject matter of correspondence between the Government of India and the various Chambers of Commerce, in which these banks are by no means inactive members. Even after the Committee was appointed on 22nd June 1929, the managers of these banks in India had ample time to consult with their Home authorities and keep ready with full particulars of their activities in India. I decline to believe, that they had not foreseen the possibility of being called upon to produce this information. I raised this issue at the earliest moment, when the taking of evidence by the Central Committee began, and I was assured that the information would be forthcoming.

The fact remains that the figures have not been supplied separately for each bank. Nor have they supplied even the consolidated figures in such detail as are usual, as, for example, the figures in the statement of the operations of the Imperial Bank of India. The result is, that those members of the Committee, —and amongst these, a very large number must be included,—who have felt the need for the establishment of an Indian controlled institution for dealing in foreign exchange, are working absolutely in the dark. The size and scale of such a bank and the various classes of operations, which it would have to indulge in, remain a mystery. I am not very clear, why this mystery should have remained. In what way the interests of the foreign banks would be prejudiced by furnishing information, the demand for which they have resisted, I cannot see. But, assuming that their 'Home' authorities are wide awake and shrewd businessmen, I cannot help thinking, that there must be an object behind this, and that object could not be one of helping India or her interests.

168. *Extent to which foreign banks engage in financing internal trade.*—Even the consolidated statement has brought out in an unmistakable manner one point, *viz.*, that the operations of these banks are not confined to the financing of foreign trade, and that the capital collected by them in India is very far in excess of what would be required, if they confined themselves merely to the function of foreign exchange. The figures of their advances, it will be noticed, are, in the case of both British and non-British banks, exclusive of bills of exchange. The bills of exchange appear duly at the bottom under a separate heading, and collectively, for both groups, amount to about Rs. 11 crores, as against a total deposit taken in India of Rs. 66·35 crores. The balance of over Rs. 55 crores thus, in addition to such permanent fund, if any, which these institutions claim to have brought to India from their own capital and reserve, would constitute the working capital for internal banking. It is thus almost equal in amount to what the Imperial Bank of India on the one hand, or the Indian joint stock banks put together on the other hand, have for the same purpose. The fiction, that foreign banks in India are financing only foreign trade, has to be abandoned in the light of this. The idea, that the financing of foreign trade is their normal and legi-

timate function, is thus not correct. As already indicated, the exports and imports of India become the imports and exports of other countries, and what is India's foreign trade is in effect other country's foreign trade. The use of Indian money for financing foreign trade is, therefore, justified only to some extent.

169. *Definition of foreign trade.*—The difficulty arises because of the new definition of foreign trade, which the foreign banks seek to establish in this country, contrary to received notions, and in doing which, they secured the whole-hearted support of the foreign "experts". In the early stages of the discussion, the Committee unanimously, with the exception of Mr. Buckley, the representative of foreign banks, accepted the definition of foreign trade, as trade from the point, where shipping documents are taken out at a port of export, to the port of destination, and *vice versâ* from the originating port to the Indian port until the moment, when the goods are cleared. Foreign trade, thus defined, would be covered by bills of exchange, which could constitute the legitimate activity of a bank engaged in foreign exchange business. As already indicated in a previous section, an attempt is being made to collect the exportable produce in India from as near the primary producer as possible, and in the case of imported materials, to reach as near the primary consumer as possible. It can be said, that this is no longer an attempt, but an accomplished fact. To the extent to which it is accomplished, it may be said, that the internal trade of the country is being handled by the foreigners, but, since in the past it has been found possible to institute a lot of economic make-believe, which goes down, an attempt is now being made to define foreign trade so as to cover all the operations of the foreigners in this country. Such a definition would also make out as perfectly legitimate, the activities of the foreign banks in attempting the financing of the internal trade, which are in effect reprehensible, and which have been so recognised by a certain number of my colleagues with reference to their proposal to restrict internal banking to Indian institutions.

170. The 'Exchange' Banks gave evidence also collectively, *i.e.*, through one party, and we had no means of getting at facts from several sources to enable us to draw inferences, as in the case of Indian joint stock banks. Their representatives would not admit that they had expanded, not merely the number of the branches in the interior, but also the volume of activities of such branches as existed in the interior. The following questions and replies speak for themselves:—

Question No. 3132.—(Mr. Manu Subedar) Would you kindly tell us the total number of branches that are in the inland centres (*i.e.*, except at the main ports)?—I could not do it off hand.

Question No. 3133.—Could you tell us whether the actual turnover or business at these branches in the interior has of recent years increased?—It is smaller now than it was in the height of good trade.

Question No. 3134.—It would be smaller compared to the boom years, but taking the normal position, say before 1913, would it be smaller to-day or greater?—I am afraid I am not in a position to answer.

Question No. 3135.—Could you let us have the information later, say for the last five years?—The difficulty is that we are only concerned with the total volume of business of the members of our Association.

Question No. 3136.—(Chairman) We want to get at the volume of trade, more especially in the up country branches, for the five years ending 1913, and also for the five years ending 1929. We should also like to have the information in the form supplied by the Imperial Bank in regard to advances of all kinds.

Question No. 3137.—(Sir Purshotamdas Thakurdas) Could you get information for the foreign Exchange Banks?—We could get for the British Exchange Banks.

Question No. 3138.—(Mr. Buckley) I am very much afraid that Mr. Cook will never be able to collect this information, because no bank will tell anybody what its advances to any party amount to. I would suggest that the Director General of Statistics in Calcutta be asked to apply to the Exchange banks in London through the India Office for the information which would be supplied by them in London in a consolidated form.

Question No. 3139.—(Chairman) Then, Mr. Cook, you need not trouble, we have already taken action in this direction?—I might say that the same applies to the volume of trade up country; it would be exceedingly difficult for the banks upcountry to disclose any information.

Question No. 3140.—Does the same difficulty apply in the case of turnover?

Question No. 3141.—(Mr. Buckley) I should have much pleasure in writing to the London Association and putting this point before them and trying to get some figures for the information of the Committee.

Question No. 3142.—(Chairman) In that case we shall not be able to get information about non-British banks?—I do not think that it would amount to very much.

Question No. 3143.—And there is no means by which we can get information from the non-British Exchange Banks in regard to their loans and overdrafts?

Question No. 3144.—(Sir Purshotamdas Thakurdas) The Dutch bank has only opened during the last five years?—I am afraid I could not tell you.

Question No. 3145.—They have no branches up country?—No.

Question No. 3146.—(Mr. Buckley) The figures the India Office have already been asked to collect are on the lines of the figures supplied by the Imperial Bank and they relate to the whole of India.

The turnover can be collected in London and given in the form of a percentage which I think is all that the Committee would ask for.

Question No. 3147.—(Mr. Manu Subedar) I should like to have the absolute figure also. Supposing they told us that during the last five years the increase was 60 per cent. that would be no indication. I should like to know whether it was 5 crores or 10 crores increase.

Question No. 3148.—(Chairman) This is not a matter which we need discuss with Messrs. Cook and Ingram. We shall have to consider it among ourselves before we decide about the precise information we want to collect.

I regret that no steps were taken to secure the information, which never came before the Committee, either from the witnesses, or from the representative of ' Exchange ' Banks, or through correspondence between the Committee and their London Offices, or the India Office and the Finance Department and the head offices of these institutions. It was not from any lack of reminder from me later, that the information did not come.

171. The above discussion took place at the time of the examination of the representatives of the foreign banks on the 1st September 1930. In the light of this, Sir George Schuster's reply to Mr. B. Das to a question in the Assembly on the 23rd of February, 1931, offers an illuminating commentary.

Mr. B. Das: Will Government be pleased to state:

(*a*) whether requests have been made by the Central Banking Enquiry Committee or any member thereof for information as to the operations of the foreign Exchange Banks in India;

(*b*) whether such requests have been fully complied with;

(*c*) if not, whether the Finance Department propose to secure the information necessary for determining the position and activities of these foreign institutions relative to Indian banking constitutions?

The Honourable Sir George Schuster: (*a*) and (*b*). So far as the British Exchange Banks are concerned, all the figures required by the Banking Committee have already been supplied. The non-British Exchange Banks were requested to supply the information either to the Secretary to the Committee or to the Secretary to the Government of India in the Finance Department. The figures have been received from six out of the nine non-British Exchange Banks addressed. Of the remaining three, one has sent the figures to the India Office, and it is believed that the other two have also followed a similar procedure.

(*c*) Does not arise.

172. In the absence of such information, one has to draw the unavoidable inference and to strengthen it from the expression of responsible opinion in other quarters.

The Bengal Provincial Committee in paragraph 50 expressed the following views:—

"*Exchange Banks have been compelled to take up new lines of business, which were formerly in the hands of Indian joint stock banks alone.* Advances against hessian delivery orders have been already referred to, in the previous section. Discounting of inland bills or hundis was also in vogue among the Exchange banks in Calcutta before the present trade depression. It is true this business is declining at present, but that is not wholly due to the disinclination on the part of Exchange banks to encroach upon the province of Indian joint stock banks".

The Bombay Provincial Committee in paragraph 37 expressed the following views:—

"The Indian branches of these foreign banks *do every type of banking business* in addition to the business of financing the import and export trade of India. They receive deposits from the public in India and *try to secure as much of the country's capital resources as they can obtain.* While the Imperial Bank does not allow interest on current accounts, the exchange banks generally allow 2 per cent. on balances exceeding a minimum limit. It is a matter of *general complaint* that the resources thus tapped are used mostly for financing the foreign trade of the country, which is largely in the hands of foreign merchants, and that *in times of monetary stringency abroad they remit money out of India to take advantage of high market rates in other places.*"

The authority of the Chairman of the Mercantile Bank of India Ltd., must, however, be considered unimpeachable on this point.

"I attribute this reduction in profits chiefly to the suicidal competition that continues between Exchange Banks in India. I referred to this competition last year and said that after taking into account brokerage and heavy expenses, the margin of profits on our exchange operations was disappearing; and I regret to say that, as the result of the past year, I can see no improvement in the position which is such that, *but for our local business, we should lose very little by declining to do any exchange business.*"—(Speech at the annual general meeting in 1929).

CHAPTER XIII.

FOREIGN BANKS: COMPLAINTS AGAINST THEM.

173. *Share of foreign banks in creating opinion and policies hostile to Indian opinion and interests.*—The role, which the foreign banks play as a whole under the leadership and guidance of the British banks, and the light, in which this role appears in Indian eyes cannot be understood, without an examination of some of the events of the past and some circumstances relating to them in recent times. The 'exchange' banks are members of the British Chambers of Commerce in India. It is not enough to say that they have shared the outlook of their Chambers. This outlook on Indian aspirations generally, not merely in the field of political advance, but more particularly in the field of economic growth and financial and other assistance to trade and industry in Indian hands, has been considered hostile. It has been nothing unusual now, for more than a generation, to find, on fiscal matters and large public questions relating to financial policy, British commercial opinion ranged definitely and almost invariably against non-official Indian opinion. This hostility has been more particularly marked with regard to measures for securing safety and encouragement to Indian insurance and Indian shipping. That the British 'exchange' banks have had a hand in formulating some of this opinion, particularly on issues relating to the standard of value, currency, mint, the administration of paper currency, Government remittance, capital programme, Government borrowings for long and short period, appears to be the belief in Indian circles.

Such belief is undoubtedly strengthened by the fact that the British banks have regarded themselves as part of British commerce,* and the views of this section of British commerce have been expressed, in common with the views of British banks, in the deliberations of the English Chambers of Commerce and of the Associated Chambers of Commerce, in the Assembly and Council of State, and before public commissions of enquiry.†

174. The anti-Indian attitude, generally, of the 'exchange' banks has been illustrated by some reference given in Chapter XI from Government despatches and the views expressed by representatives of these banks and of British Chambers before public commissions. It may be, however, mentioned here in a summarised form. These banks have always acted in a selfish manner. They have looked to their own advantage‡ and they have not shared the com-

* The Chairman's speeches at the annual general meetings of these banks for many years past would clearly demonstrate this point.

† The Manager of a British 'exchange' bank represented the Bombay Chamber of Commerce before the Chamberlain Commission, and both the Bombay and the Bengal Chambers of Commerce before our Committee were accompanied by the Managers of a British 'exchange' bank.

‡ In recent difficulties of Government in the maintenance of exchange, heavy inducement had to be given to the 'exchange' banks to retain

mon life and sentiment, or the general considerations affecting the prosperity of this country, or even the convenience of the Government of India. Indian opinion believes, that their hostility was due to jealousy and selfish purposes. Their attitude has been considered unsatisfactory from the point of view of India and the larger considerations of Indian national advantage, and some indication of that attitude may be had with regard to the few points enumerated hereunder:—

(1) The closing of the mint.

(2) Opening of London offices, taking of deposits in London and engaging in foreign exchange business by the Presidency Banks, and, later, by the Imperial Bank.

(3) The manner and volume of sale of Council Bills. They wanted more Councils to be sold even when the money was not needed in London, to save them the trouble of bringing in gold,* and they wanted the Secretary of State, in selling Councils, to confine such sales only to 'exchange' banks. They wanted him to follow the market, *i.e.*, the 'exchange' banks, in spite of the notorious fact, that they were working in an association, that could manipulate the rate to the disadvantage of the Secretary of State.

(4) The admission of the Tata Industrial Bank on the list of those eligible for the purchase of the Council Bills.

(5) The establishment of a gold standard in India and of gold currency, and the opening of the mint to the free coinage of gold.

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their funds in India, or to get additional funds from London. I very much doubt whether Government have secured a fully competitive rate with regard to their Treasury Bill operations and whether they have not been the victim of any concerted action by the foreign banks. The exchange necessity was, however, supreme. "The reactions and repercussions of the Treasury's operations have been, only too frequently, adverse and opposed to bankers' plans and programmes. This has been responsible for much bitterness in banking circles."—("Indian Finance", March 14, 1931.) I have, however, not seen any suggestion in any quarter, that the foreign banks stood in any way by the Government of this country in their difficulties.

*"An Indian Correspondent" wrote in the "London Times" in November, 1912, as follows:—

"It means that many millions sterling of Indian money have been improperly withdrawn from India. They represent sums extracted from the taxpayer in excess of the requirements of the State: capital withdrawn from India for use in London and there used, not in pursuit of Indian interests but for the convenience of joint-stock banks trading on inadequate gold reserves. . . . There is therefore no justification for the sale of a single bill by the Secretary of State beyond the actual amount which he needs to discharge his obligations in London. But these excessive sales of bills are a convenience to the exchange banks which have to remit funds to India and it is often cheaper for them to buy bills than move bullion. They also afford a means of obstructing the natural flow of gold to India, and in this way allay the terrors of those joint-stock banks who realise the inadequacy of the London gold reserves and are not averse to protecting them at the expense of the Indian taxpayer."—(Quoted by Prof. Kale in his "Indian Economics", Vol. II, page 606.)

(6) The establishment of a central bank as bankers' bank, the ownership by the state of such a bank and the grant of unrestricted power to such bank on the approved model of central banks established in other countries.

(7) They were opposed to measures, which would lead to any other agency importing money from London, or other financial centre, or to a reduction of money rates in India, particularly during the busy export season, " which would enable the native to hang on to his produce."*

It was also evident with regard to the elimination of British company management for railways.

175. That the British 'exchange' banks exercised considerable influence in the counsels of the Government of India and of the Secretary of State cannot be gainsaid. In matters affecting them, they invariably secured their object. There are many instances, where their opposition succeeded,† and I know of none, where their opposition failed. Their association with Government arose both directly and indirectly. Several retired Government officials graced the Home boards of these 'exchange' banks, and through the Financial Committee of the India Council, on whose advice the Secretary of State generally acted, they must have had a means of having their opinion successfully pressed.‡

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* Reply of the representatives of the 'exchange' banks to Question No. 2856 of the Chamberlain Commission.

†Refer Chapter XI.

‡"Mr. Norton said in the course of the first Budget debate in the newly-born Assembly,—more is the pity,—about the failure to adopt competitive tender as follows:—

'Why not? Did they not know or knowing, will they not answer? I cannot entertain for one moment the suggestion that the Government have not got the answer. The only horrible inference is that they have it and will not reveal it. I think we are entitled to apply to the Hon'ble the Finance Member from his failure to produce, the legal presumption most hostile to himself. It is quite clear to me, and I hope it will be equally clear to the House that the reason why the Finance Member was unable to answer that particular question with regard to the policy of his Government in the matter of Reverse Councils was because he did not wish to implicate persons who are not here and who do not desire to be here.

'And if it be true,—I am afraid that it is,—if it be true that the real impelling and controlling influence with regard to this matter and other financial matters are to be found in England and not in India, then I think the House would like very much to know who is the Rasputin behind our Financial Czar, to which I would add the supplementary question, where is he living, in Delhi or in London? Is it in India where we can control him or is he at Home outside our jurisdiction?

'These financial considerations are brought forward, not as they should be, solely for the benefit of the people of India, but under alien guidance for the benefit and prosperity of men who have long exploited India for their own ends and who intend to prolong that process without interruption in the future.' "—(" Reverse Councils and other 'Organized Plunders' " by T. S. Krishnamurthi Iyer, pages 449-450.)

Government of India considered them very important interests and dealt with their representations in this spirit. Permanent officials of the India Office have advocated their cause, even when such advocacy led them to disregard of public advantage.* The Reserve Bank Bill introduced by the Government of India contained provisions preventing the Reserve Bank taking deposits or doing service to those member banks, who have no offices abroad,—provisions conceived entirely in the interests of the 'exchange" banks.†

176. The 'exchange' banks, which had to be helped in India at the commencement of the war, were able later to extract a guarantee

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* *Question No. 11231.*—I think that is dealt with more at length in your next Memorandum, is it not?

Mr. Cecil H. Kisch.—That may be so.

Question No. 11232.—I suppose that any possible difficulty in peculiar Indian conditions in maintaining the functions of the Bank in this respect might be removed were the Bank to be a true Reserve Bank such as contemplated and not at the same time engaged in commercial business?

Mr. Kisch.—Yes. I think that is so. No doubt the terms on which the bank was constituted would prescribe that their exchange operations should rather be with banks than with the public.

Question No. 11233.—The exchange operations of the true reserve bank?

Mr. Kisch.—That they would buy sterling from the exchange banks and sell sterling to the exchange banks, and the Central Bank itself would not deal with individuals. As I understand, it was to be a banker's bank. It would rediscount sterling bills, but I take it that its operations would not be between itself and private individuals, but with the banks.

Question No. 11234.—Do you suggest any limitations in that regard which do not apply, for instance, to the proceedings of the Bank of England as regards exchange operations with a foreign country?

Mr. Kisch.—I think the Bank of England is in rather an exceptional position. I do not know how far the Bank of England on its own account deals in foreign currencies. No doubt it is buying dollars on behalf of the Government or through agents on behalf of the British Government. I do not know how far the Bank of England holds bills expressed in foreign currency on its own account. I should be very glad to know if you would enlighten me on that point.

Question No. 11235.—That is rather a question of evidence from those who are in direct contact with exchange business, and can speak on behalf of the Central Banks as to what, if any, limitations were possible consistent with the conduct by the Central Bank of this essential business?

Mr. Kisch.—My only point really was that these exchange operations should mainly be with other banks selling sterling or buying sterling to and from them, and rediscounting bills, but it should not itself deal with individual members of the public or individual institutions.

Question No. 11236.—In other words, that it should not conduct the general business of an exchange bank; that it should only conduct exchange business for the discharge of the functions of a Central Bank?

Mr. Kisch.—That is a broad conception that I think ought to be laid down in the Statute or Charter governing the bank. (Oral evidence before the Royal Commission on Indian Currency and Finance, 1925-26.)

†Refer Chapter XVII dealing with the Reserve Bank.

from the Government.* During the Reserve Councils loot, it was the 'exchange' banks, that shared in the spoils.** They have demonstrated more than once, that they are business concerns pure and simple, and whenever they could, they have taken advantage out of every embarrassment of the Government of this country. The latest example is the excessive inducement, which the Finance Member has been compelled to offer to them in the rates for Treasury Bills. In spite of these direct and indirect gains, in several public enquiries, they have acted cavalierly towards Government by not supplying definite information, even to public commissions and the impossibility of getting such information from them was reflected in the following questions and answers at the time of the Royal Commission on Currency, 1925-26.

"*Question No. 1651.*—(Chairman) There is only one other matter in which you may be of assistance to us. It will be useful sometime in our enquiry, in relation both to the exchange position

*"The Exchange Banks promised to give prominence to such exports and loyally carried out their undertaking. They were, of course, reimbursed for the losses due to their over-bought position by the Indian Government who allowed them to bring back funds to this country at rates at which they had been taken out. Council drafts were sold during 1917 only to the chief Exchange Banks and a few firms of special eminence on the Approved List who agreed to sell drafts at prescribed rates. The refusal of the Banks to buy bills without full cover caused great inconvenience to export merchants."—(Prof. Kale, "Indian Economics", page 616, Vol. II.)

"Exchange Banks had not adequate funds to buy bills and had, for some time, to sell drafts at a fixed rate; and they were compensated for this by Government as far as their over-bought position resulted from the restriction imposed by the latter. The government's purchases of sterling drafts from the banks here saves the latter from the trouble to discount or realize the bills in London and then bring back the funds to India."—(Prof. Kale, "Indian Economics", Vol. II, page 671.)

** "The above table gives rise to a multitude of thoughts, albeit disconnected. The Indians' share is only about £13 millions and if we exclude the portion of the Sassoons and the Presidency Banks, our share really comes to £11 millions or $\frac{1}{5}$ of the total Reverse Council sales. It has been said that these sales were in response to trade remittances. If so, are the sons of the soil entitled only to one-fifth? How are the Exchange Banks including Cox & Co., entitled to get as much as £18¾ millions, more than one-third of the amount sold, when they were not actual traders? Since there was considerable difference between the market rate and the Government's arbitrary rate, these Banks must have resold them at a huge profit, or for the 15 crores they paid to the £18 millions, they must have got Rs. 27 crores or cent. per cent. profit if they had retransferred the whole amount. A veritable gold mine indeed! all gold and no quartz. This is in addition to the gift made to them on some imaginary Council Bills to liquidate an imaginary over-bought position, referred to in the last chapter. It is also worth noting that on 12th February when one pound was sold for Rs. 6-14 as,—what a windfall,—Calcutta alone, that means mostly European remitters, got £3,472,000 or more than ⅔ of the sum sold on that date. Among other things, this shows how the wind blowed. We shall again ask how are non-Indians entitled to remit £44 millions at a profitable rate and thus inflict huge losses on the Indian Revenues or cause loss to the Indian people. The Government in India seems to exist for the benefit of everybody else but Indians. Even the Americans and Japanese got £10 or £12 millions as much as the Indians got."—("Reverse Councils and other 'Organized Plunders'," by T. S. Krishnamurthi Iyer, pages 146-147.)

and in relation to the position of a possible central bank, to have a view of the position of the Indian banks as regards home and foreign liabilities. Can you tell us whether there are any returns published or any statistics available showing the relation of the Indian liabilities to the Indian assets of the Indian banks?

Mr. Denning.—I do not think there are any statistics, from which you could get that information.

Question No. 1652.—At any rate there is no statutory requirement to show a return?

Mr. Denning.—No.

Question No. 1653.—And do you not think there is any source of information on that subject?

Mr. Denning.—The only people you can get it from are the banks themselves. I do not think there is any other source, because I do not think they publish their assets and liabilities in various places separately."

177. With regard to the 'exchange' banks, the disability of Indian opinion has been dual, *viz.*, the difficulty of getting the ear of Government in this country, and the difficulty of securing a sympathetic consideration from the superior Government in London.* No more apt illustration could be found of the general description during the last two generations, than that the British official carried on his mind the responsibility for British trade, and British trade shared something of the anxieties of the British official. Brought up to a rigorous code of social ostracism of the Indian, the Government official and the banker had opportunities of fraternising in exclusive British clubs and during many all-white functions, thus sealing the mutual regard and confidence. This may have been unavoidable. It may be actually a matter of great credit for both. Its truth cannot be challenged. It is the manner, in which this has struck the Indian mind, which is of importance and which explains the psychology of the non-official Indian, and the readiness, with which he would credit complaints against the British 'exchange' banks in their anti-Indian attitude.

It would not have been necessary to emphasise the foreign character of these institutions and their anti-Indian activities, which are at the bottom of the feeling against them, which was

*"Indian opinion is very closely interested in the conduct of Indian financial affairs in London, and particularly in the sterling borrowing policy together with the methods of floating loans. Subject always to the observance of principles of sound finance, it is desirable that the financial policy should be conducted in a spirit responsive to Indian opinion, and we should go so far as to recommend this, even if on occasion some slight sacrifice may have to be incurred. No system can work successfully if Indian opinion is strongly opposed to the policy of Government. . . . . But the success of such a relation depends on the realization of its limitations, and any attempt to control the details of India's financial policy from London must be regarded as an anachronism.—(Government of India's Despatch on Constitutional Reform, 1930, page 159.)

expressed by Indian witnesses, had it not been repeatedly urged by the foreign " experts ", that they were banks pure and simple, and should be viewed as such, and not from any other standpoint.* The successful share of these banks, in the formulation of public policies in the past, would show, that they have been more than banks, and they have been important contributories in the shaping and dissemination of public opinion, which has affected Government action and the economic life of the people of the country.

178. *Conditions under which foreign banks work.*—Before examining the specific inconvenience and complaints, arising out of the activities of the foreign banks in India, to the Indian mercantile community, or Indian institutions generally, it is necessary to indicate the conditions, under which foreign banks work in India at present. They establish themselves anywhere, without let or hindrance, and without any legal obligation upon them.†

The foreign banks have their head offices abroad and are registered under the law of their country with their capital expressed in currency other than Indian. Their shareholding is entirely in foreign hands‡ and the controlling interest in these institutions is alien. It follows, that their directorate is also non-Indian. The control being thus exercised from abroad, their accounts are not liable to be audited by a recognised auditor. Their activities and affairs in this country remain an absolutely closed book to the public and to the Government of the country. Their weakness, or their strength, may be disclosed from their general balance sheet. The foreign " experts " laid great stress on the extensive security to depositors, of assets outside India, but they did not

*" We are generally not in favour of the introduction of a licensing system. Banking ought to be left to free competition and its development ought not to be hampered."—(Foreign " Experts " Report.)

In what refreshing contrast are the views of another foreigner, who had not the honour of being invited to India to help the Committee will be seen from the following:—

" Thus the Exchange Banks form a relatively unabsorbable and uncontrollable part of the Indian banking system. Their function is quite specialised and results in the anomaly that the exporter has far better financial facilities than the cultivator. The Exchange Banks do attract Indian deposits, but, on account of their specialized business, drain all the money to the ports in the busy season, when it is quite as much in demand upcountry. They have also shown little inclination to co-operate with the Indian joint-stock banks, and this is supposed to have been a cause of the 1913-15 disasters. The study of their operations in India certainly suggests that where, in other countries, overseas banks form an important part of the banking system, difficulties of a comparable nature in connection with the Central Bank control, are very likely to arise."—(" The Imperial Banks," by A. S. J. Baster, page 194.)

†Their representative stated that they supplied some particulars regarding their capital, etc., to the Registrar of Companies in provinces, where they have offices.

‡ It was suggested that a few shares of some of the ' exchange ' banks were held in India, but whether these were held by Indians, or domiciled English people, I do not know. No figures were produced by the representatives of the ' exchange ' banks on this subject.

speak of the danger, which operations of some kind might involve in foreign countries. The weakness of many of those institutions, either through fraud effected in an individual bank, or through a general banking crisis on other lands, would directly involve their Indian constituents. These Indian constituents have no protection in law of their own country and no prior claim even on such Indian assets, as a foreign bank might have in this country, in the event of any of these institutions getting into serious difficulty.

179. As there are no separate accounts of the profits, which they earn in India, I very much doubt if the Indian Income-Tax Department gets from them a proper contribution to the taxes of this country for the protection, which they receive. Since I could not receive the figures of the operations of each individual bank in this country, corresponding to those disclosed freely in the case of an Indian joint-stock bank, I could not raise the question of getting the figures of income-tax paid by these banks. But I would ask the Standing Finance Committee to call for them and to see, whether their contribution to Indian revenue is adequate in proportion to the profits, which they earn in India, compared with their contribution to the income-tax revenue of their own country.

On the personnel of the foreign banks, no Indian has been known to have been employed in a superior capacity. The Editor of the "Indian Finance" truly described them in the following words: "The Exchange Banks entered the field of banking in India long before indigenous joint-stock banks were thought of, and they have throughout sought to maintain the foreign character of their organisation and management." It is noteworthy, that seventy-five years of the working of foreign banks in India, during which they made large profits and distributed them in very high dividends, or piled them up in their formidable reserves, has not elicited even once the suggestion of Indian participation in their enterprise, either in the matter of shareholding, or in the matter of control and directorate, or in the matter of management, or in the matter of superior staff.

They have regarded their place in India as a perpetual place. They have viewed the suggestion of Indian participation in their enterprise either in joke, or in anger, but never in a tolerant and friendly spirit. If they have rendered service in the past, they have been very amply paid for it. They received the hospitality of India and have capitalised their opportunity. They have built up the goodwill, they have created a monopoly, and they show every desire to hold it as a monopoly. They now stand offering insuperable obstacles to Indian effort, not merely in the field of foreign exchange business, but in that part of the internal business, which they have collared.

180. *Complaints against existing foreign institutions.*—A general under-current of complaints pointing to distinct hostility by foreign banks towards Indian persons, Indian companies and Indian institutions generally, was noticeable. Indian jobbers in exchange

were excluded, Indian brokers discouraged or boycotted, bills of lading of Indian steamship companies and policies of Indian insurance companies were tabooed, Indian banks were scoffed at, and Indian effort, generally, either in trade or industry, was belittled. Such was the tale unfolded cumulatively out of what was said and what was left unsaid by Indian witnesses. One can deal in a report of this kind only with illustrations, pointing to the gravamen of the charge rather than submit an exhaustive catalogue. It would be most unreasonable to suppose that responsible parties will come before a Committee appointed by the Government of the country and make allegations, which would be either unfounded, or merely malicious. It would be equally unreasonable to infer, that, because the representatives of foreign banks deny such allegations, they were altogether unjustified. I would illustrate them by the following:—

"*Oral Evidence of Representatives of Exchange Banks Association.*

Question No. 3321.—(Mr. Manu Subedar) You said that banks were in close association for many years with certain well established insurance companies and it was but natural that they should go to these concerns. I would give you an instance where an insurance company established, not in England, but in Java, came here and got absolutely full freedom with the exchange banks; and another insurance company established in Calcutta, but under European auspices, got full facilities which Indian insurance companies of first class standing do not get. Would you call that prejudice or anything else?—(Witness) We cannot admit prejudice, but it may be that we have not gone sufficiently far into the standing of companies, because we have not been sufficiently pressed to do so. There are no hard and fast standards to our knowledge, and there is no prejudice because a company happens to be Indian.

Question No. 3322.—(Chairman) Your point is that there was no deliberate prejudice in the cases referred to, but owing to misunderstandings, or whatever it may be, things turned out so, that it appears that there was a prejudice?—(Witness) My point is that we are a very conservative people and take a long time to change our views. If you press hard enough, we probably will.

Question No. 3323.—(Chairman) We shall leave it at that.

Question No. 3324.—(Mr. Manu Subedar) The prejudice has not broken down with regard to Indian companies. Have the policies of Indian insurance companies been accepted by exchange banks without question?—(Witness) Indian insurance policies have been admitted.

Question No. 3325.—I know frequent instances, where they have been rejected?—(Witness) Probably in a letter of credit issued which is in a form which has existed for 50 or 60 years, where it says that insurance must be effected with such and such insurance company. That existed before any Indian insurance company

came into being, and if there was any prejudice, it was directed against the insurance company, of which we know very little.

Question No. 3326.—Do you suggest then that the passing over of Indian companies was in some cases due to the wishes of the exchange banks?—It was due to the terms of a letter of credit which might have been modified. In one instance when I was approached by an Indian shipper, I wrote Home saying that this letter of credit stipulated insurance with a particular company, but I would like to see it modified in favour of an Indian company, about whose standing, we were quite satisfied and by return of post, this was agreed to."

181. Why those, who "cannot admit prejudice" in their dealings with Indian insurance companies, should have taken the pains to explain the reasons for rejecting Indian policies, I do not know. Several Indian insurance companies existed before 1919, but, since then many reputable and absolutely first-class concerns are in the field. Foreign insurance companies have been putting many obstacles in their way, and have launched out into a tariff war. They have approached foreign banks, but obviously they have not "pressed them sufficiently." Foreign bankers are "a very conservative people and take a long time to change their views." There is obviously another case of progressive realisation, for which Indian companies must wait, until these people, who say, that "there is no prejudice," give up their prejudice. If there is no room for improvement in the support hitherto withheld by foreign banks towards Indian insurance companies, why should the Chairman of the Bengal Chamber of Commerce profess his desire to assist the Banking Committee in smoothening matters, and write to our Chairman, that "with the approval of the London Association, every support is being given to Indian insurance companies"?

Self-complacency, it will be seen, could not go farther. If there was no discrimination, improvement was impossible, and yet the growing public opinion in this direction has already told, even while our Commitee was sitting, and greater recognition to Indian enterprise in insurance than in the past is given to us as an accomplished fact!

182. It would be a travesty of language to say, that complaints were received by us against foreign banks and were investigated. If investigation means that the witnesses on behalf of foreign banks and the member, who represented them on the Committee, had an opportunity of expressing themselves fully with regard to the complaints received, it is certainly true. But there was nothing whatsoever beyond this. Knowing the power of the foreign banks, and also the fact, that working in concert as an association, they have the means, and the will to use the means to put down every one, who would raise a voice against them, if such a party was still engaged in active trade, it is not surprising that individual complaints were very few. It is not surprising, that accusations against the working of foreign banks came before us in a sum-

marised form through representatives of Indian chambers, and that these associations were not in most cases, for the reason indicated above, willing to give individual names of parties, through whom complaints emanated. The absence of such direct facts cannot be interpreted as an indication, that everything is all right and that Indian commercial opinion, in preferring complaints against foreign banks, has been misled by national sentiment or racial prejudice. One can allow for exaggeration or for adjustment, but it would be impossible to consider that the complaints were unfounded. There may be a doubt as to the extent and thoroughness, with which Indian interests are penalised in the working of foreign banks in this country, but the inherent possibilities of the situation abundantly prove, that it could not be otherwise. People, who are powerful and active in trade, who have in them pride of race and intense patriotism and the habit and capacity of working together and for each other, could not give preferential support to Indian interests against the interests of their own nationals. The weakness of Indians in their own country and the humiliating position, which they occupy in the counsels of the state, in contrast with British interests, cannot justify the expectation of scrupulous and excessive consideration for their interests at the hands of foreign banks, except where these foreign institutions had something to gain out of them.

183. That the complaints preferred by Indian interests against the foreign banks, were not vexatious and silly, would be also seen from the earnest appeal to the representatives of ' exchange ' banks by Sir Purshotamdas Thakurdas, the Vice-Chairman, in the following terms:—

" *Question No. 3698.*—(Sir Purshotamdas Thakurdas) You, representatives of the Bengal Chamber of Commerce, do generally endorse the opinions expressed by Messrs. Cook and Ingram who were examined by this Committee yesterday and to-day?—Yes.

Question No. 3699.—Therefore the views of the Bengal Chamber of Commerce and the Exchange Banks Association on questions dealt with before this Committee are identical?—Practically so.

Question No. 3700.—The Bengal Chamber of Commerce is the most premier British Association in India?—Yes.

Question No. 3701.—You, gentlemen, have heard the evidence of Messrs. Cook and Ingram yesterday and to-day and you have also heard the various points that have been raised and discussed very fully?—Yes.

Question No. 3702.—Now I wonder whether your Committee would be willing to send us a supplementary memorandum indicating what changes your Chamber and the Exchange Banks Association are prepared to introduce forthwith in view of the discussions and the elucidation of the various view-points which have taken place between the Committee and the representatives of the two bodies yesterday and to-day. We have together discussed various points

very frankly and you gentlemen have all tried to help the Committee as much as you can. You, I am sure, have seen the viewpoints which have been put to you yesterday and to-day being reflected before this Committee by various Indian commercial bodies. I feel sure that you will be inclined, and think it worth your while to go through your evidence tendered before this Committee and place it before your Chamber and the Association respectively and that you would jointly prepare and send to the Committee a further memorandum (confidentially if you want to do so) indicating what you think can be done forthwith, *in order to remove the disabilities that the Indian mercantile community suffer from at present* that have already been placed before you with a view, first and foremost, to allaying the disturbed feelings in the minds of the Indian commercial community, as also to lightening the task of this Committee in arriving at a satisfactory conclusion in regard to these matters?—We are very glad that you have put the case before us so nicely. We will report to our respective bodies the views of the Committee and shall be very glad to forward to you, if the Chamber and the Association so decide, any considered decisions that they might arrive at."

184. Here was an appeal by an eminent Indian businessman, who, in his capacity as Chairman of the Imperial Bank of India, Bombay, had means of first-hand knowledge of affairs. It was an appeal couched in unexceptional spirit of moderation, and seeking reforms along the line of least resistance on the basis of give and take and mutual goodwill, but it assumed the correctness of the complaints. There was a desire to let bygones be bygones, provided the future could be set right. It is noteworthy, that to this appeal, there was no response in any form at any time, and that none was more disillusioned and disappointed than the distinguished author of the appeal.*

The British, amongst the foreign banks working in India, are members of the British Overseas Banks Association, which was formed in 1917 and of which British banks with a London office are eligible for membership. Its object and activities might involve advantage to England, or to members of the Empire, but could not possibly help India. The forming of associations by banks working in certain localities is the most usual thing for British banks. They have formed an association of their own in this country, but such has been the wide gulf between the British and other foreign banks working in India on the one hand, and Indian joint-stock banks on the other, that never has a proposal for a common banking association been made or discussed.

185. *Foreign Banks in relation to Indian Institutions.*—The attitude of foreign banks towards Indian institutions has been the reflex of the attitude of foreign merchants and traders in this

* Unless the letter of the President, Bengal Chamber (printed as annexure III), can be regarded as a response!

country towards Indian commerce. The consciousness of a privileged position has characterised this attitude, and has resulted in extreme jealousy and intolerance of Indian institutions. There has not been that professional comradeship, which one would expect to see between men engaged in the same operations in a country. The lack of co-operation and of cordiality between Indian and foreign banks has resulted in the feeling amongst Indian banks, that, through their majority in the clearing house, the foreign banks have tried to keep the Indian banks out as long as possible. The refusal to admit an Indian bank to the clearing house, because it is a weak bank, involves a reflection on a bank, which other banks, who are obviously rivals, are not entitled to make. The rules of the clearing house ought to be such, that they offer the necessary protection to all, and the breach of rule by any member, whether Indian or foreign, might be made punishable by membership being taken away. In England, the privilege of being a clearing banker is not extended to foreign banks, and in other countries also, there is reason to believe that some such restriction is made. That in India, an Indian bank should be at the mercy of foreign banks, who are in a majority, for admission to the clearing house, is a deplorable commentary on the whole situation.

186. Another field, in which there has not been the same give and take towards Indian institutions, is the placing of call money. Call money is the surplus cash with bankers, on which they seek to realise a small interest, keeping it at their ' call ', *i.e.*, available for themselves, when they need it. The ' exchange ' banks, it would appear, have taken call money from Indian institutions, but have not always reciprocated in giving call money to them. The device of placing money at call is the device used in a money market for equal distribution of the money available amongst those, who need them. Not only does it enable the lending bank to realise interest, but it enables the borrowing bank to tide over an immediate shortage, perhaps for a day, or for a week or two, at a charge, which is not heavy. Here again, the explanation of the ' exchange ' banks, such as what one would believe from remarks made, was, that the Indian institutions were not strong. Even provincial co-operative banks, which are working under some privileges and many safeguards, were not accorded this reciprocal treatment. The evidence on the Indian side seemed to indicate, that the explanation was not a genuine one, and that the exclusiveness was exercised on grounds other than mere business considerations. The foreign banks had their own Association. That this Association has worked on racial basis, is abundantly proved by the fact, that the British banks, who were originally in the field, still maintain an inside council controlled from London, and the membership of foreign banks of this Association is largely for the purpose of fixing business rules, holidays, etc. No Indian bank has been admitted to the membership, and, while it is true, that the representative of the ' exchange ' banks made it quite clear that there was no bar to their admission, and if they applied

this time, they would be admitted, no Indian institution has dared to apply. The evidence before us tends to show, that Indian banks did not expect to be admitted, and they did not want the additional obloquy of having applied and having been thrown out.

The ' exchange ' banks would not freely buy remittance from the Indian banks under the rule, which restricts them to deal with members. Nor would they sell freely to Indian banks forward. The case, which came before us, of the ' exchange ' banks having refused to sell to the Central Bank of India one lakh of rupees T.T. forward, is the one in point. The amount of risk involved here is, that in the event of the Central Bank not taking up the contract, the bank, which has sold, will be obliged to go in the market to cover it. The loss is, therefore, limited to the difference between the contract rate and the rate, at which the bank would be obliged to sell in the market, therefore, the fluctuation between the contract rate and the gold point, which is the maximum. The possible loss involved in this transaction would, therefore, not be more than a trifle, and the foreign bankers, with a singular unanimity and forethought, combined in inflicting on the Indian institution the loss of prestige in the market, which was inevitable, when it got out that none of the foreign banks would sell to a large Indian bank an amount, which they were daily selling to ordinary merchants. Banks feed on credit, and it would be impossible on behalf of the foreign banks to plead, that they did not realise the influence on credit, of what they were doing.

187. *Association of Foreign banks and their rules.*—It was admitted by the representative of the ' exchange ' banks before the Committee, that the object of the rules was to secure uniform action by members, which would not lead to the disorganisation of the market. In other words, the object of the rules undoubtedly appears to be to reduce the range of competition in all directions, where it is possible. An analysis of the rules from the public point of view would be desirable, but the fact that there are five associations working at five different places in India, and that the rules, under which they work, have in the past differed everywhere, militates against such an examination. I was credibly informed by a party, occupying an exceptional position in the financial world of Bombay, who had first-hand means of information, that the rules, which were in operation in Bombay for some years, made a definite discrimination against Indians in black and white. I attempted to get a copy of these rules, but was supplied with a copy of new rules. It also came out in evidence that rules were made arbitrarily and were changed arbitrarily, and they were made and changed without the knowledge of the Indian constituents, who had no means of getting hold of a copy of the rules. It was impossible to avoid the impression, that the ' exchange ' banks had chosen, with reference to Indians, deliberately to act in an atmosphere of mystery, isolation and irresponsibility. It is not suggested that the ' exchange ' banks had

no Indian clients. Nor, again, that the 'exchange' banks would allow any profitable business to go out of their hands. The gist of Indian evidence was, that the superior staff of the 'exchange' banks showed less consideration for Indian clients and made different and more difficult terms for them in business, and that with regard to Indian clientele, it was not a case of mutual convenience and advantage, but rather a gracious patronage from the banker, even when the business was good, and where the bank itself was fully rewarded for the service.

188. The rules of the Exchange Bankers' Association divide themselves roughly in three classes.* The most important is one, which prevents dealing with any one except the members. The effect of this rule is to keep Indian joint-stock banks out of such business as comes to them in natural course through clients, who are used to deal with them in a large way. In the course of evidence it was specifically mentioned, that the object of this was to prevent the growth of Indian jobbers, who had taken to dealing in exchange. In short, the effect is to secure a definite monopoly for those, who are members of their Association, and to keep out Indians, who may be in a position, or who may be willing to get into the business.

The other set of rules fixes differences between certain positions, and, read in conjunction with what has been said in the last paragraph, it leaves the client of the bank no option, except to pay these differences. The Committee was not able to examine whether these differences are based on fair charge, having regard to the relevant considerations, *viz.*, interest, and the risk between one position and another, or, whether there is an element of penalty in them.

The third classification of these rules refers to those, which fix penalty on customers, who are unable to take up contracts made by them. Calcutta opinion, which came before us, pointed out, that the penalties were high in some cases. This was contradicted by the information given by the 'exchange' banks' representative, who informed us, that there had been recently some reductions in the scale of penalties.

To what extent these rules are legitimate, and to what extent they are in restraint of trade and against public interests, it would be really difficult to say. There has been no previous occasion, when representatives of the public had opportunity to see these rules, or to comment on them. Besides, the rules have been changed from time to time. The absence of any public authority charged with the safeguarding of public interests in this matter is nowhere more clearly illustrated than in their operations through a close association and through arbitrary rules.†

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* For the rules see Annexure IV.

†It would be interesting to know whether the following does not apply to India even more than it applies to other parts of the Empire:—

"In the first place, the banks (both the Imperial banks and the local institutions) are often charged with keeping too large a proportion of their resources in London and starving the local area of much-needed funds.

189. It was claimed for these banks, that they were acting very efficiently, and that their internal competition had brought down their charges very low, so far as foreign exchange was concerned. The charges levied by the foreign banks on trade are composite and involve two elements, *viz.*, interest and conversion of one currency into another. So far as the second element is concerned, it would be a relevant question, whether the whole of the trade of India running into between 500 to 600 crores of rupees, does, or does not pay a purely money-changing charge to the foreign banks taken together. It is interesting to ascertain at what figure this amount could be put, and whether the total, which is bound to be a very large figure, does or does not represent an annual tribute paid by India to foreign institutions, which have a monopoly. Can it be said that this charge is not borne by the Indian producer on the one hand, who receives the residual price after all charges have been paid, and is not covered in the price paid by the Indian consumer for the article, which he imports? That the charges both ways are paid by Indians in the case of India's foreign trade, is, unfortunately, the conclusion, to which one is drawn, because of the peculiar organization of trade and banking in India.

The second element of interest has to be examined separately with reference to import bills and to export bills. The interest charge on the Indian importer is at a fixed rate of 6 per cent. during the pendency of the bill, *plus* the time it takes for money to reach from India to London. It was argued, that this time, which is reckoned at 18 to 21 days, is the time, during which the Indian importer has not got the use of the foreign money, because he has already discharged the obligation by retiring his bill. It was argued that this does not raise the rate, at which the Indian importer gets use of the funds, but such argument is inconclusive. It was further stated, that when he retired the bill, he could buy a T. T., instead of having his money sent by the slow route. But the additional charge of $\frac{1}{32}d.$, which he has to pay on T. T., would still be there, representing excess, which the Indian importer pays. The interest charge on export bills is reckoned at the prevailing rates in India. It will be thus seen, that the charge made by way of interest, both on import and export business by the foreign banks, are not only far above the average, at which they raise their working capital in India, but they are far above the

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The English banks with firm connections in London, are naturally susceptible to criticisms of this sort, but, to some extent, it is true that all London balances have at times been excessive, even if allowance be made for reserve allocations. The reason is not far to seek. South African and Australian banks, for purposes of exchange (and other) business, *form 'rings' for the fixing of exchange rates*, for months and sometimes a year at a time. This is not quite such an unmixed blessing as it appears, as the margins between buying and selling rates have been sometimes large enough to call forth complaints, that the banks were making excessive profits out of this curious arrangement. The margin, however, is always likely to remain larger than under perfectly free conditions."—(Baster, "The Imperial Banks", pages 246-247.)

rediscount rates, which are available to the banks in London. The claim, that these banks place at the service of trade in India money, which they bring over from London, at London rates, has no foundation.

190. The question of efficiency of service would also involve the question, from the point of view of India, as to whether Indian merchants are able to get freely and to the same extent facilities, which are extended to the nationals of those foreign banks. No foreign banks, except the British, came before us in our examination, and the British bankers made it quite clear, that they were unable to extend such facilities to Indian merchants, either because the Indian merchants did not keep their accounts in a particular form, and get them audited by certified auditors, or because they were small parties. The Indian commercial opinion complained, that D/A facilities were not extended to them. The repesentative of the foreign banks sought to make out, that this was a matter entirely between the European exporter and the Indian importer to arrange. This explanation only strengthens the complaint, that D/A facilities in the import trade are less available to Indians than to others. Similarly, in the export trade, it was pointed out, that foreign banks would not discount the bills of Indian exporters, and that they asked for margins and securities from Indian exporters, which they did not get in all cases from the exporters of their own nationality. Here, again, it was pointed out, that in most cases, where foreigners were shippers, arrangements existed at the other end, permitting the payment here of the whole sum on a documentary bill. This may explain it, but the fact that the Indian shipper is at a disadvantage remains. To what extent the foreign banks can be held responsible for this state of affairs, is a matter, that, unfortunately, remained indetermined in our enquiry, as far as it has been carried out, but it is a matter, which needs to be ascertained in public interest. There is, however, no doubt, that the foreign banks have not made the same effort to get acquainted with the interests and resources of Indians. Their attitude has not been encouraging and helpful. It has tended rather to take business out of the hands of the small Indian exporter and the small Indian importer, and to transfer it into the hands of large firms.

It was possibly an easier and safer thing to do for the bank, but it would not characterise their work in India as efficient service. They were certainly responsible for the relation of the Indian exporter and importer, with parties at the other end, through references made to them and exchanged by them with their offices and agents abroad. It may be said frankly, that these foreign banks, located as they are in India, have a monopoly also of this information. They are the principal channel, through whom information about the standing of Indian merchants, whether exporters or importers, would reach the other end, and if parties at the other end are not willing to trust Indian merchants more than they do, even in those cases, where the resources and standing

are unimpeachable, can any one altogether exonerate these foreign banks from the blame?

Indian interests, as exporters and large shippers, are really infinitesimal at many ports in India, but, in the matter of imports, where an Indian importer gets D/P terms, the banks claim, that, in some cases, the bill is retired by a debit to loan account and the documents are given out on trust receipt. The interest on loans being usually one per cent. over the bank rate in the case of Indian constituents, the charge payable would be slightly higher than if it were a D/A bill.

191. *Sterling versus rupee bills.*—The claim of efficient service by foreign banks would be seriously challenged from another point of view. India is the only country in the world, in the case of which, both import and export bills are drawn in foreign currency. The economic consequences of this practice, which may be called an evil practice, are many, but they have never struck and never formed the subject of serious consideration at the hands of those, who have a monopoly service and who claim, that they have exercised their monopoly with moderation and to the advantage of India. A bill being in foreign currency, payment on due date has to be made in foreign currency. Unless some merchant has made a previous contract and bought exchange, he is precluded from settling his obligation by a draft issued by any bank, which is not a member of the Exchange Banks Association. He is compelled to pay in this draft at the B. C. rate, which, the rules have fixed, shall be higher than D. D. rate by 1/32*d.* Import bills in sterling thus leave the importer up to the last moment in the hands of, and at the mercy of the foreign bank.

The foreign banks have attempted, as in other matters,* to be exonerated from the blame on the ground, that it is largely a question of arrangement between the importer and the exporter. In so far as Indian import business is done by D/P, it means that the cash basis, which is evident in the internal trade of the country, is also, in the case of India, largely applicable to the foreign trade, and that the element of credit does not arise. It is possible, that the foreign exporter is not willing to trust the Indian importer. Nor can the Indian importer seek finance on his credit with an Indian bank, because, there is no second signature to the bill,—an advantage, which enables the banks of those countries to give accommodation to their nationals in the form of discounting bills. Thus, British and other foreign houses, who have their own branches abroad, get the benefit and enjoy an extensive credit. Indian firms, under existing conditions, cannot get the benefit of the same kind of credit, or to the same extent, unless they have a branch abroad. The situation has not in itself even the possibility of improvement. It is a horrible situation.

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* *Vide* Question No. 3325, quoted in para. 180.

192. The question of rupee bills is referred to elsewhere in this report, but it met with no encouragement at the hands of the representatives of the foreign banks. It met with the greatest opposition at the hands of the foreign " experts ". The two arguments advanced against the introduction of such bills, are to some extent mutually destructive. If it is a question of arrangement between the European exporter and the Indian importer, and, therefore, a question of price and of conditions of payment, it would depend on the extent, to which Indian importers are not only willing to adopt this system, but are able to enforce its adoption on those, who sell goods to them. There does not seem to be any doubt that the Indian importers would be able to adopt it, as it would improve the credit machinery, so far as they are concerned. It would also help them in the creation of an internal bill market and a rediscount market. The proposal made is likely to meet with the support also from the Indian banks and bankers, who would be able to hold these bills, and, through these bills, to create the connections in foreign trade, from which they are altogether cut off now. Even the foreigners were obliged to admit that in the present state of the world, where manufacturers were keen on selling, they would not be unwilling to conform to this condition, if the importer insisted on it. The other difficulty, which was mentioned, was the rate of interest. It was suggested that Indian money rates being higher than money rates at other centres, particularly in London, in whose currency the import bill was drawn, the desire to create rupee bills would be frustrated. According to the foreign " experts ", India would have to wait till Indian money rates came below money rates in London! This means indefinitely! There are fortunately other countries, where rates are higher, but where some foreign trade bills are in national currency. This was however an eyewash, since it was abundantly proved in our enquiry, that the import bills do not pay interest on the basis of London rates. They pay interest at an arbitrary rate of 6 per cent., *plus* the cost of sending the money back to London, *i.e.*, 18 days' interest added to the number of days, that the bill has to run, when it arrives in India. The longer the period, which the bill has to run, the smaller is the proportion of this additional interest to the total. It is, therefore, at the rate of $(6+x)$ per cent. that the importer has to pay interest. This rate is nearer the Indian rates than it is to the London rates. The idea, therefore, that the Indian importer will be put off, and would not concur, and actively secure the introduction of rupee bills, does not stand, since it is the importer, who, in his own interests, will seek advantage of the new credit facilities, which, in his case, do not now exist.

193. *Cheapness and efficiency of Banking Service.*—Considerations of efficiency are never absolute, but they are relative. The most efficient thing is that, which serves best, and gives that service in a manner and form calculated to be advantageous in the long run. By this test, it is a matter of very serious doubt, whether the

foreign banks can be said to be rendering efficient service to Indian interests. The suggestion, that the service was cheap, is also a suggestion, which would have to be carefully examined. With what, is it compared when the word " cheap " is used in connection with the foreign banks? Is it compared with similar services rendered in other countries by banks of their own nationality? Or, is it in comparison with the charges, which these very banks make from countries, with whose stage of development India was being frequently compared by the foreign " experts ", *viz.*, Singapore, Java, Siam, Indo-China, and China proper? Is it, again, with reference to the profits made by the foreign banks and the reserves piled by them, that the word " cheap " is used? They have certainly not shown any moderation in the profits, which they have taken from India. Lastly, in the matter of cheapness, one must ask, whether their profits do not arise after all their outgoings have been provided for, and whether the very low rate, at which they get their working capital in this country, is not really the foundation of the cheap banking service, which they claim to offer to India? If that is so, cheap service is not a gift from them, and India need not despair of getting equally cheap, but more efficient, service from her own institutions.

194. The pursuit of this subject would be useless, as a vigorous policy of engaging in the finance of internal trade, and of invading the fields hitherto in the hands of the indigenous banker and the Indian joint-stock banks, and of increasing the operations of the internal branches, has been actively undertaken, but an attempt is being made to do this quietly. The foreign banks would not admit, that their activities in the interior have grown. Nor would they admit frontally and definitely, that, in the case of many of them, by far the more important part of their work is internal banking. They are resisting any definite statement, that their principal work in India now collectively is not the business of foreign exchange, but of general banking. They would not admit, though Mr. MacDonald of the Imperial Bank, who came to their rescue, admits, that the deposits taken by them are far in excess of the requirements for the finance of foreign trade.

If the amount of their deposit in excess of the need of foreign trade finance has not gone to the interior, or in internal banking, can it be that the money has gone out of India? The foreign banks have not given a denial to this allegation yet. The heading " advances in India " is a cryptic heading and it may cover advances in India, not for purposes of the finance of Indian trade, either internal or external.

It was difficult, in the course of discussions, to get their representative to admit, that India's obligation to finance the foreign trade would only apply to one-half, and that it was absurd to collect more than this from the public. Foreign trade has un-

doubtedly increased in value, but, from the point of view of the 'exchange' banks, the importance lies not in the absolute value but in the difference between exports and imports. As moneys are coming in from the importer, the bank is enabled to use these moneys to discount the export bills. There are, of course, seasonal variations, the difference in the time, and nature of the credit allowed to importers and exporters, and there is the greater total volume of export bills than of import bills. Even after allowance is made for all these, and for a certain amount of cash, which a bank must carry, the actual amount, which will be required for a bank to engage in foreign exchange finance, would not appear to be considerable. Indeed, this is proved by the statements referred to in paragraph 163, which show that all the foreign banks, operating in this country together did not engage more than Rs. 11 crores in bills of exchange at a time, which may be regarded as the middle of the busy export season. The conclusion, therefore, is unavoidable, that foreign banks, operating in India, are helping their nationals with finance to handle both import and export from Indian money, that, after doing this, they have still large sums left with them, which they engage in internal banking, and from which they are helping their nationals to penetrate in the trade, as far in the interior as possible, and that they have in recent years increased their activities in internal banking to an extent, which makes the position not only difficult and hazardous for Indians engaged in trade, but also perilous and unprofitable for Indian banks.

194. *Profits of the foreign banks.*—The Indian public will look in vain in the Reports of the Central Banking Enquiry Committee for information with regard to the profits of the many foreign banks through their operations in India, and yet this is one of the most relevant and proper lines of enquiry. If the profits are large, when the fact is brought to public notice, Indian enterprise in larger volume might be attracted to the field now covered by the foreign banks. If there is any part of the profits, which is not legitimate, which is the result of non-competitive fixed rate charged to the public by an agreement or a 'ring' amongst the foreign banks, which is the result of a monopoly in the field of foreign exchange, which these banks have managed to get for themselves, and which is the result of any exclusive opportunities, or privileges, which these foreign institutions are enjoying, which are denied to the Indian institutions, it may properly call for a further enquiry and remedial measures. I, therefore, regret that this question was never discussed by the Committee, and no material was produced, which would enable a total estimate of the profits earned by these banks to be made, or its further analysis disclosing excessive or unreasonable gains calling for public attention.

In paragraph 149 a reference was made to the growth of capital and reserves of some of the older British banks and to their activities. In the case of British banks, the shares of which in recent

times are being quoted on the Indian stock exchange, the following dividends are mentioned:—

	Dividend Rate per cent.			
	1926.	1927.	1928.	1929.
Chartered . . .	20·25	20·25	20·25	20·25
National . . .	20	20	20	20
Mercantile . . .	16	16	16	16
Eastern	9	9	9	9
P. & O. . . .	5	5	5	5
Lloyds	16·7	16·7	16·7	16·7
Hongkong . . .	64	64	64	56
Imperial of Persia . .	10·6	10·6	10·6	(not known).

The dividend, however, does not convey in itself whether the earnings are large. A dividend indicates earnings of a certain amount, but does not necessarily show the total gain, direct and indirect, nor again the relation of such gain to the cost of service. In the case of foreign banks, other than British, it is difficult in India to get their balance sheets, or to have any reliable facts about them. Particulars about these banks working in India were neither before the Committee, nor were they considered.

195. Amongst the items, on which the foreign banks can earn, the most important will be the item of exchange. Analysing the composite charge made by the foreign banks, and taking out the interest element from it, there would be a charge for the service of changing money from one currency into another. It has to be examined, whether this charge is in practice levied on the whole of the foreign trade totalling Rs. 560 crores. Foreign banks, as a rule, keep books indicating their operations on export and import side, which cancel one another, and it is only for the difference that they come into the market for more bills or more remittance. It is only with regard to the difference that they adjust their own position for various periods in forward exchange. They exercise judgment and they take the risk with regard to this difference.

But a question may be asked, whether the clientele pays this exchange charge not merely for the difference, but for the whole turnover. Is it earned by foreign banks on the invisible imports of India also? It will be interesting to determine, whether a double commission is paid by Indian trade, and, if that is so, whether all of it, or which portion of it, is borne by India. I shall not attempt to make an estimate of this charge, but, if it were calculated by competent parties, the results would be most interesting.

The foreign banks in India receive deposits at low rates. They give lower rate on an average by $\frac{1}{2}$ to $1\frac{1}{2}$ per cent. compared to Indian joint-stock banks, and this factor alone on their total deposits would make a difference of from Rs. 50,00,000 to Rs. 75,00,000 a year. To what extent the benefit of this low rate is transferred to the clientele, and to what extent it is retained by them, is again

a point, that requires elucidation, but, for the decision of which, sufficient material did not come before us.

196. The margin of profits of foreign banks is in deposit rates and discount rates for internal bills. In England and other countries it is invariably lower than the bank rate, but in India the foreign banks have created a tradition, that it should be higher than the bank rate. While, thus checking the development of a bill market in the interior, they are using the bills emanting from India for enriching the London money market, not without profit to themselves. As the export bills from India are discounted on the basis of Indian money rates, their rediscounting in the London money market would put into the pockets of these banks a handsome commission. In the ultimate analysis, however, it would greatly detract from the claim, which they have made, of bringing the use of cheaper money from London for India's trade. The profits, which they earn in this manner, must be said to be altogether out of proportion to the risks, which they run. There is cheap deposit money in India, and cheaper re-discount money in London, and yet the trade in India has to pay more than the importer or exporter pays in England and many other countries. This is the efficient banking service, which these institutions supply to India, and in consideration of which they claim to be left alone and applauded!

Another source of profit to the foreign banks, is in the import of gold and silver bullion, in which for long they had the monopoly, and even now they account for the bulk. The position of foreign banks in respect of the low cash percentage carried by them and their extravagant establishment have been already referred to elsewhere.

197. Foreign banks also make money by undertaking agency work, purchase of sterling securities by Indians, general remittance work, letters of credit, and rents from bank warehouses. They handle the bulk of what may be called the invisible imports by India, and they make profits out of the movement of permanent capital in India, the withdrawal of capital, and the transfer of income on such capital.

They have always objected to Government entering the market, either with unlimited sales or purchases of sterling, or entering it without warning. They have insisted on Government selling, or buying, sterling only through the banks. They have insisted on Government following the market, except where the market has gone beyond the upper or lower gold point.

Whether the foreign banks do, or do not, make money from Government remittance, would be a proper question to raise. The system adopted for Government remittance in India is, that the Controller of the Currency calls for tenders from amongst these banks, and accepts such tender in such amounts as he likes. Is he receiving in all cases a competitive quotation? Can it be said that institutions, who have shown a genius of combining and safe-

guarding their interests in other directions by such combination, will fail themselves, when they have to deal with a Government official? No moral restraints, would prevent them making more out of the Government of this country, if they could. The Committee have not been able to ascertain whether the vigilance exercised in this direction is adequate.

198. On a review of the last fifty years of the work of foreign banks in this country, it is impossible not to feel, that there has been a grave omission in the position not having been carefully looked into on behalf of the people of this country, so far as the foreign banks are concerned. While foreign interests engaged in business were wide awake, authority, claiming to represent Indian people, was tolerant and quiescent. Under the dominance of the idea of free trade and free business opportunities, a situation has been created, in which very large profits are earned by foreign corporations, some of them excessive, because of the lack of competition, some of them not legitimate, because of the monopoly, but, whether the profits are large or small, all of them go into foreign pockets. They swell the drain out of the resources of this country. They spell backwardness and dependence on foreign help in essential matters. They involve many ancilliary disadvantages to Indian trade and Indian enterprise in other directions.

CHAPTER XIV.

FOREIGN BANKS: TERMS OF LICENCE.

199. The problem with regard to foreign banks has been set out in the previous chapters. Questions naturally arose in the Committee in connection with the adequacy of financial facilities to the Indian business community as well as in regard to the applicability of the regulations, which were devised for, and pertinent to, Indian joint-stock banks, whether there should be any interference with the work of the foreign banks operating in this country, and whether they should be made to conform to any requirements either of law or of public convenience in India. The cleavage of Indian and European thought was more definitely marked in regard to this subject than in regard to any other, which came under examination by the Committee. European witnesses expressed themselves happy with existing conditions and deprecated any change. Where they countenanced some change, it was in the matter of a formal licence. The Indian witnesses, on the other hand, expressed themselves with singular unanimity, that they were dissatisfied with the existing order of things, and suggested changes calculated to secure better facilities to, and better opportunity for the growth of, Indian institutions against the competition of these foreign institutions.

This sort of feeling is nothing new. Public opinion in India has demanded the reservation of the field of Indian banking for institutions registered in India.* The Indian Industrial Conference of Karachi in 1913, asked for, amongst other things:—

(*a*) That the use of the term "Bank" should be restricted only to companies registered under the Joint Stock Companies Act.

(*b*) That all Banks not registered in British India having an office or Branch in British India should be registered under the Indian Companies Act, save and except the Banks which are created by a Statute.

200. The Committe were unanimous that the open door to foreign bank in India should cease, that a system of licence should be established, and that it should not be possible in future for any foreign banking institution to establish a branch in India without such licence. It was thus recognised that a bank stands on quite a different footing from an ordinary business, and that it is a public utility institution. It has certain rights in law, which the ordinary borrowers and ordinary lenders do not possess. A bank, not merely through advertisements, but by the very fact of its opening an office, involves a wide and free invitation to the public to deposit their moneys with it.

* This demand was voiced by no less a publicist than Sir Dinshaw Wacha, who has been the recipient of the highest honours both on the side of the Congress and of Government, and was supported by Sir C. P. Ramaswami Iyer, Rao Bahadur Dewan Hiranand Khemsingh, Rao Bahadur R. N. Mudholkar and Mr. P. D. Shamdasani.

In the case of a foreign bank, the lay public cannot possibly know its standing or affairs abroad, or the relation, in which the home country of such banks stands in relation with India, or the treatment, which Indian institutions and persons receive in such countries. For the safety of all those, who deal with such institutions and as a matter of public policy, it was considered essential by the Committee, that a general system of licensing should be instituted. The foreign "experts" view, on the matter of licences, was as follows:—"We are generally not in favour of the introduction of a licensing system. Banking ought to be left to free competition and its development ought not to be hampered."

The foreign banks, who came to give evidence before the Committee, accept the position with regard to a licence in the following words:

"*Question No. 3292.*—(Mr. Manu Subedar) You said just now that you would have no objection to the exchange banks giving particulars of their accounts in the same form in which the other joint-stock banks did?—Witness: I can say that the exchange banks are perfectly willing to agree to any licence, which Government may prescribe.

Question No. 3293.—(Chairman) Your point, as I understand it, is this: that if the Government of the country considered that a licence was required from every bank in the country, whether it was an Indian joint-stock bank, or whether it was a foreign bank, and if one of the conditions attaching to the licence was the presentation to Government of accounts in a prescribed form, your view is that the exchange banks will not object to that licence. Am I correct?—Witness: Yes. If the Government of India made a general rule that every bank operating in this country, be it Indian or foreign, would have to take out a licence, and if one of the conditions was that it must present its accounts to the Government in a prescribed form, I would not object to that."

201. That a licence should be given as a matter of course to foreign banks established in this country already and should be renewed to them as a matter of course, are suggestions indicating too hasty an enunciation of public policy. The issue of a licence must be a matter of absolute discretion to the authority, on whom such duty is fixed, and its renewal must also be a matter of their judgment in all cases. In Germany, Italy, Japan and Canada, amongst many countries, which have established licensing of banks, the discretion of the Minister of Finance is as a rule final. He is not obliged to give any reasons either for the issue of the licence, or for its suspension and revocation, or for its non-renewal, or for additional restrictions, or variation of the term thereof. This is a wise and salutary provision. It eliminates the possibility of public discussions, which may do harm to the bank concerned, and which may in this manner become a subject matter of diplomatic representations. If India is to play her role as a free dominion, the procedure to copy will be the procedure adopted by free countries.

It would be harmful, if the provisions of law, which lay down such procedure, are unduly influenced by a spirit of narrow opportunism, or compromise, by an overflowing and unmistakable desire to oblige foreign interests and to incommode them as little as possible. The powers of the licensing authority should be as wide and definite as possible, since it is desirable that the exercise of these powers in practice should be just at all times and as moderate as possible consistent with the economic situation and the needs of the country.

202. *The Licensing Authority.*—With regard to the authority, to whom it should be open to give licences to foreign banks, the majority of the Committee have recommended that it should be the Board of the Reserve Bank. The Reserve Bank bill, as it was introduced, did not have any section imposing on the Board of the Reserve Bank any obligations, or conferring on them any powers in this direction. If powers in this direction are to be given to the Reserve Bank Board, it would be at once obvious that the exercise of these powers would not be possible on purely economic considerations, that what are known as political considerations would have to be imported into the exercise of such powers, even when it were universally agreed that normally and except in extreme cases, where it is unavoidable, such considerations should not be brought in. The power to license in other countries is part of the sovereign power of the State. If it is considered wise and proper to delegate this power for the Dominion of India to the Board of the Reserve Bank, the Board would have to put themselves in the position of the State in the exercise of such power. They would have to take cognizance of " reasons of state ", which will not be identical with banking reasons and which may be even opposed to financial considerations, even if the occasions for such cognizance are rare. Even a cursory examination of the detailed terms of this licence set out below and the reasons given later with regard to the restrictions proposed, would make it clear that the licensing authority may, under certain circumstances, be called upon to take account of factors other than those, which relate to pure finance. I recommend that the Board of the Reserve Bank should have this power, but only on the supposition that the Board will exercise this power not only wisely, but will reflect in its exercise at all times the national standpoint. Until the Reserve Bank comes to be constituted, the exercise of this power should be left to the Standing Finance Committee of the Indian Legislature. It would be most unwise to delay the introduction of a system of licences for foreign banks, merely because other considerations and larger considerations intervene in the establishment of a Reserve Bank.

203. The terms and conditions of the licence, which is to be issued to foreign banks, emanated only indirectly from the discussions. The foreign banks themselves desire that no obligation should be levied on them, which would not be levied on Indian banks. They were, however, fully aware that many obligations, which are levied on Indian banks, that are registered in this country, that have their head offices in India, Indian shareholders and Indian directors and auditors could not be possibly discharged by them.

A little closer analysis would disclose that the terms of licence of foreign banking institutions in India would have to be materially different. The object of making any terms at all is to protect different classes of Indian public and Indian institutions from unsound foreign banks, from foreign banks now operating, which may become unsound in course of time, from malpractices, unfair competition, anti-social and anti-national activities, which they may indulge in with reference to the Indian public or Indian banks. The equality complex*, it will be noticed, would mean a negation of all regulation with regard to foreign institutions. Foreign institutions act in conformity with laws, under which they are founded, with the policies of their respective countries, and control of their respective boards. These laws may be materially different. These policies and the detailed control may be very different with regard to these institutions amongst themselves and be far removed from the prevalent ideas of Indian law governing Indian institutions, and from principles of public policy, which Indian institutions are called upon to conform to directly and indirectly. The terms of licence, again, in all countries in the world are not the same from time to time. Nor are they the same with regard to different institutions. They are instituted to meet an emergent situation, or to ward off an apprehended danger. They are framed as the result of public opinion in a country arising out of criticisms of the operations of foreign banks, public opinion, in the shaping of which local interests or the voice of the indigenous banks predominate. If these conditions are to be reproduced in India, the enunciation of the terms of the licence would have to be carefully considered by legislature in this light, and not on the crude and unintelligent principle of establishing an equality. The equality, which the foreign banks have in mind, is with regard to privileges, which would be open to Indian banks, but they are adroitly importing the notion of such equality in the matter of regulation, where it can have no place. A glance at the terms indicated below would show at once the absurdity of applying some of them to Indian banks and the danger of omitting their application to foreign banks on the plea of equality.

204. *Terms of licence.*—I enumerate hereunder various terms which ought to be included in the licence given to foreign banks.

* Note the confusion of thought in the following extract from the Government of India Despatch, 1930, where licence is regarded as restriction, and restriction is regarded as unjust expropriation, equal treatment being suggested as a way out.

"The line taken has been to advocate schemes under which non-Indian companies would be allowed to operate in India only under licence, or subject to special restriction and conditions. Some of the proposals made may be regarded as fair subjects for discussion on their merits, provided that all companies, whether Indian or non-Indian, are to be treated alike, but some advocates of proposals of this kind have not attempted to conceal the fact that one of the objects, which they had in view, was to promote the growth of Indian companies at the expense of British companies, and for this purpose to impose restrictions on non-Indian companies, which would not be applicable to Indian companies."—(Page 163.)

Some of these terms emanated from witnesses, others came from discussions in the Committee and some others are based on the practice of various countries. An examination of these terms would make it clear that the business of licensing is not a formal business. The imposition of any particular term is going to have restrictions of some kind or the other. Every term put in the licence must, therefore, serve a definite public requirement. It should seek to advance a definite aim of national economic policy in banking matters and should assist the programme instituted for the advancement of such policy.

1. The licensed bank should not receive deposits in India from Indian-born persons or joint-stock companies registered in India.

2. The licensed bank shall confine its branches to the port areas only, and no branch shall be opened in the interior.

3. Controlling interests directly or indirectly shall not be acquired in an Indian institution in order to defeat the above provision, or for any other motive.

4. The existing branches in the interior should be withdrawn *pro rata* within five years, and the banks concerned should submit forthwith a programme indicating the manner and extent to which, they will be withdrawn during each of these five years.

5. It shall not be open to the licensee to engage in trustee business in this country, which would put Indian funds in their hands.

6. Except the manager and one official in each branch under him, the whole staff shall be Indian.

7. The licensed bank shall pay full income-tax on its earnings in this country and disclose all accounts and particulars to enable the revenue authorities to frame the demand.

8. The assets of the licensed bank, in the event of liquidation, would be liable to be taken possession of by the Official Receiver of High Courts in India, and the licence is issued on the basis that the licensee agrees that Indian creditors will have a full prior right on such assets. [All licensed banks would have to make the necessary change in their articles embodying this provision and would have to secure from the High Courts in their own country a certified order to this effect within twelve months.]

9. Copies of all statistical returns, reports, papers, and balance sheets, prepared in connection with the business of the Indian branches supplied to their head offices, would have to be lodged with the licensing authority in India.

10. All information relating to business done in this country in the form, in which it is desired by the licensing authority, would have to be given by the bank. The licensing authority will have absolute discretion, as to which of this information should be published.

11. The licensing authority will determine whether, and which, branches of the licensee bank will be admitted to the clearing house.

12. The licensing authority will also determine whether, and which, branch of the licensee bank will be eligible for re-discount or any other facilities from the Reserve Bank.

13. The licensee bank undertakes that its officials shall not participate in any anti-national movement in India, or assist such movement with funds, or in any other manner.

14. That it shall not, in combination with other foreign banks or persons, make a ring or a pool, or a combination, or working arrangement without the express permission of the licensing authority, who will see that such action on their part does not harm interests.

15. That it shall not combine with other banks, Indian or foreign, to make business rules, or impose charges payable by its Indian clients, which shall not have been approved of by the licensing authority.

16. The licensed bank undertakes to conform to the laws of India in all disputes, which may arise between it and any Indian-born person or company registered in this country, and that neither the bank nor any of its officials will claim any special privilege in contravention of such laws.

205. The desire to get in apprentices in the foreign banks in order to make room in the higher staff for Indians, and to get Indian local advisory boards associated at their principal offices in India is a manifestation of the spirit of servility, which seeks a subordinate association with the foreigner. This may be the acme of wisdom, which suggests taking, what can be taken, when more is not possible. But it is also a frank admission that more is not possible and that Indian institutions to replace foreign institutions cannot come into existence now or at any time, that in the foreign institutions a self-respecting place of partnership is not possible for Indians, even when they are willing to pay for their share of the partnership. I have, therefore, refrained from adding to the list of terms any such suggestions.

It is recommended that there should be no restriction against a foreign institution using the word " Bank " in its name. Nor is it essential that the deposit of Government Securities should be taken from the foreign banks operating in India in respect of each branch. I would not recommend the imposition of a special capital tax or turnover tax as in France.

206. It will be noticed that Nos. 1, 2, 3, 4, and 5 are provisions emanating from, and corresponding to, the restrictions suggested in the report with a view to encourage Indian joint-stock banks. With regard to provision No. 6, which wants that the whole staff should be Indian with the exception of the manager and one official in each branch, the views of the foreign banks may be invited, and their difficulties in practice, if any, may be considered. It should be open to the licensing authority to make relaxations,

where a proper case is made out, but the exception should be really exceptional.*

Provision No. 7 is a formal reminder that the licensed institution should be liable to income-tax and that this liability would extend to all the profit made in this country and would come prior to the claim of the income-tax departments of the respective countries of the foreign banks. No material came before us to show whether the Board of Revenue in India were able to secure full income-tax from foreign banks operating in this country, and the insertion of this provision in the licence would be a standing reminder to both sides.

Clause No. 8 involves a special provision in the event of liquidation in the interests of Indian creditors of the bank, and does not involve any hardship.†

Provisions Nos. 9 and 10 merely emphasise that the public authority in a country, in which an enterprise is being carried on, is entitled to the fullest information. Its interest in such information is primarily for the tax, which it has to collect. It has also to watch out that the public interest generally is safeguarded, and nothing is done in a manner, which would jeopardise Indian interests. Such provisions exist in Japan and have not been known to inflict any hardship. The studied resistance to give information to our Committee and the elaborate curtain of mystery, behind which foreign banks have chosen to operate, makes insertion of those terms in the licence very imperative.

Provisions Nos. 11 and 12 are inserted to indicate that the formation of the clearing house is not a matter of right on the part of banks operating in a country, but is a public convenience which must be set up and worked by the central bank of the country on lines most advantageous. Similarly, the relation of banks operating in the country to the central Reserve Bank has to be entirely a matter of discretion of the central authority. Such discretion is vested in the Bank of England in the United Kingdom and is used against all foreign banks. Even the discretion vested in the central bank in Holland was taken away by law in 1926, to prevent the German banks taking advantage of rediscount facilities. The law now requires that no rediscount facilities should be given except to institutions registered under the law of Holland.

Provisions contained in clauses Nos. 13, 14, 15 and 16, are generally provisions requiring loyalty on the part of the foreigner to the legal and other institutions of the country and requiring that nothing will be done in the furtherance of the business interests of the licensed bank, which will be either unlawful, or which, being lawful, will still operate inimically towards Indian interests, or towards the interests of the public. In particular, a term of this

* A similar provision exists in Turkey. I understand that a law enforcing this provision was prepared and passed within one week after a conversation, which Kemal Pasha had at a dinner, where some representatives of foreign interests were present.

† A provision on these lines exists in Japan.

kind in the licence will secure, by the licensing authority, that examination of the rules and other provisions of the association of foreign banks in India, which has not been properly made at any time at the hands of a public authority.

207. I have proceeded on the basis that the nature of the terms should not be mechanical. They have to be definitely devised with reference to the good of India. Several questions have to be asked, *viz.*, can the present situation, in which a large amount of foreign trade and a considerable amount of internal trade, are handled by foreigners, in which all the foreign exchange banking and a large amount of internal banking are in the hands of foreigners, be allowed to continue in the economic interests of this country? What would be the consequences of the " status quo " and leaving things alone? It is not as if this factor, either in the matter of trade, or in the matter of banking, is a static factor. Both have grown and the more lucrative portion of both has been collared by the foreigner. The profits of both are going abroad and are increasing the drain on Indian's resources, and it is all financed with Indian money. In both directions, there are many signs that there may be even greater expansion of foreign interests. If the answer is that something should be done, then it is recommended that legislature should not be content with merely formal provisions, which would have no material effect. It is not merely a matter of removing the humiliation, both to the State and the people of this country. It is not a matter of securing a sentimental advantage but of warding off a very substantial injury. The question to ask would be, whether these foreign banks would remain foreign, or whether they can ever form a part of the life of this country. The system of licence has to be introduced, and the terms involved in the licence have to be framed on the basis that these institutions will continue to remain foreign, and that, neither by implication nor otherwise, will they have any obligation towards the State or people of this country, that their primary obligations and their secondary obligations will be towards the nationals of their own country. The terms have to be devised on a basis, which would then allow India to develop her own economic life and her own institutions, as best as she can and with such resources as she has.

The foreign banks have non-co-operated with Indians so long and in so many directions, that the time has come for India to analyse the function of a bank, which is after all purely an intermediary between the lender and the borrower. Where the lender is an Indian in a large measure and the money is lent out to the foreigner by a foreign machine, the obvious course is for the Indian not to lend except to institutions, where the bulk of the borrowers will be his own countrymen. If there is some sense in national economy as pursued by all the nations and as belauded even by the English administrator in this country, the same principle should be applied to foreign banks.

208. *The basis of reciprocity.*—I regret I have to express disagreement with the majority, who have recommended that the terms

of licence should be on the basis of reciprocity. The terms, as already indicated, should be such as would secure healthy and ordered development of Indian banking. The imposition of restrictions for the sake of imposing them, without seeking to accomplish a definite economic object from such imposition, cannot be justified. It would actually be, and be interpreted as, a sign of animus against alien interests. There would be no reality in framing restrictions in India on foreign banks, on the reciprocity basis, since there is no Indian enterprise abroad, which is subjected to these restrictions. I cannot visualise the time when India will have fully met her own internal needs, and her institutions will overflow and seek new fields abroad with a view to render banking service to other countries. Until that situation and strength and resourcefulness comes on the scene, India has very little to fear from retaliation in the banking field. With regard to other fields, India's political status abroad cannot be lower than it is. The treatment of Indian persons and institutions in other countries has left much to be desired. Indians everywhere have suffered from the exclusiveness, domineering, domination and exploitation at the hands of foreigners. It is not improbable that European people, other than the British, have taken their cue in regard to Indian matters from the attitude of the United Kingdom. It would be altogether outside the scope of this report to deal with the larger issue of the possibility of India having to suffer from retaliation, if her legislature sets up a system of licensing foreign banks working in this country under terms considered absolutely necessary for safeguarding Indian interests in India. India has to build up her strength in all directions. The foundation of such strength everywhere would be economic well-being. Banking, which constitutes no mean part of this economic well-being, cannot be left to drift in the hopeless condition, in which it now is, merely through fear of retaliation.

Every country in the world has restrictions on the activities of foreigners settled in its limits to the extent, to which its own economic needs require. The danger from alien interests has to exist before a remedy comes to the fore, and when the remedy is devised, it is as a rule applied uniform to all alien interests. I do not know of any country, in which, by legislation or by executive order, different treatment is meted out in regard to banks to the nationals of several countries and institutions belonging to several alien nations. Whatever the law is in Britain, which discriminates against foreigners in favour of British concerns, it discriminates uniformly. Similarly in the United States of America and in other countries. According to the scheme of reciprocal treatment, India will have to pass different laws for different countries. Thus, with regard to a bank, which operates in this country and which hails from the United States, a law would have to be passed prohibiting such bank from taking deposits, or acting in trustee capacity to any Indian or Indian joint-stock company. In the matter of the French Bank, a capital levy would have to be devised and a special tax put on profits and turnover. In the matter of the two Dutch banks, they will have to be precluded from rediscount

facilities at the hands of the Reserve Bank of India. In the matter of the Japanese banks they would have to take out a licence, in which, the terms will be set out by the Finance Minister of this country at his discretion; they may not be allowed to use the word "Bank" in their own name; they may be called upon to put a deposit in respect of every branch in this country of Government securities of the value of not less than one lakh Yen; they would further be obliged to lodge with the Minister of Finance every paper and every statement of account, balance sheet or profit and loss account, or every further circular, which they send out to their shareholders. Their liquidation could be ordered any time by an Indian Court and their assets in India could be reserved for Indian creditors. They may or may not be given permission to open branches and a close watch would be kept on them, that they do not operate in a manner prejudicial to the national interests in India.

209. Restriction on foreign banks on the principle of reciprocity would let off the British banks very lightly. It would revive the complaint of "Imperial Preference by the back door". The operations of the British banks are not only much greater in volume but the British banks have branches in the interior and as British nationals handle a larger amount of India's foreign trade than Indian nationals, their operations inflict a greater economic loss to this country than the operations of other foreign banks, and yet, because in England, on account of the enormous strength of the English money market and with the remarkable patriotism of the British, which does not permit foreign institutions to prosper in the United Kingdom, there are no visible restrictions on the establishment of foreign banks, it is suggested nothing should be done here in regard to British banks! There are some rules now with regard to the employment of a certain proportion of the staff, who must be British, and it was admitted, that there was discrimination in the matter of rediscount at the hands of the Bank of England against paper, which emanated from, or, was accepted by, non-British institutions.* No foreign bank is admitted to the clearing house in United Kingdom. On a reciprocity basis, British banks' licences would, therefore have corresponding terms.

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* *Mr. Manu Subedar.*—You agree with the view expressed by Mr. Buckley, that a bank with a rupee capital in India would not find access to the London money market.

Mr. Currie.—They can get access to the London money market, but not in the same way as an English bank can.

Mr. Manu Subedar.—I thought the London money market was the world money market and that it gave free access to any body.

Mr. Currie.—Naturally they know much more about banks with their head offices in London than they know of banks with their head offices in India, and this knowledge helps them to decide how many bills of a particular concern they will buy.

Mr. Manu Subedar.—Then, in your opinion, the institution, which Dr. Trip suggested may be formed by banks in India, will have this serious disadvantage.

Mr. Currie.—It will have that disadvantage as compared with English institutions in the London money market.—(Extracts from the Report of Discussions with the Foreign "Experts", 9th March 1931.)

Putting restrictions on foreign banks in India on the principle of reciprocity, is thus, to my mind, a travesty of regulation. They would achieve no material result; they would in effect cause the maximum amount of irritation. Collectively, all the restrictions mentioned, as far as information is available, will not, if applied on the principle of reciprocity, cripple the operations of foreign banks in India, or expand the activities of Indian banks, or safety of the Indian public, or aims of national policy, which alone can justify their imposition. They will render the Indian position ridiculous in the eyes of the world. International opinion must feel the weakness of India's position and India's incapacity to devise a system suitable for herself or satisfactory for her needs.

210. The principle of reciprocity, which is, under other circumstances, a sound principle and a logical one, cannot be the foundation for framing terms of licence. It could only be employed after all the restrictions on the various foreign banks, which are necessary, are imposed solely on the ground of India's interests. It could, if at all, then be employed to discriminate administratively in favour of those nations, who give to Indian institutions abroad special treatment. When no such Indian institutions exist, the question would not arise. It was actually mentioned in the discussion of the Committee, that England would retaliate any action in regard to British banks by checking the operations of Chetty bankers in Singapore, but the case is not on a par. The Chetty goes to Singapore with his own money to *lend*. British banks come to India and *borrow* Indian money. But it shows the anti-climax, to which discussion on the basis of reciprocity would lead.

The recommendation of the majority, that the operations of the foreign banks must be restricted on the lines of reciprocity, establishes, however, the principle, that it is right and justifiable to impose restrictions on the working of a foreign institution in India, and that it is a fair and proper thing, as in other countries, for the Indian legislature to pass the necessary legislation discriminating against the foreigner in favour of Indian nationals and Indian institutions. This principle finds equally an expression in the dissenting minute of one group of the majority, who recommend that foreign institutions should not be allowed to establish branches in the interior outside the ports, and existing branches should be withdrawn by them.

211. *Nature of the Restrictions.*—It would be fair to those, who will be called upon in their public capacity to legislate, to indicate here the real conflict of views between one school of thought and another. There will be those in this country, who desire frankly to continue unrestricted opportunities to foreign banks to engage in every description of banking everywhere. From their point of view, time and energy is wasted in creating a system of licensing, and if it is to be created, it should be just a formality, involving a minimum departure from " status quo ". I should not be surprised, if there came in existence in India from a sheer reaction to such views, a party, the members of which will seek at all costs to

render it absolutely impossible for foreign banks to operate. The demand of such a party would have solid economic justification behind it. Such a demand would be beset, however, with many practical difficulties, and its fulfilment would create many and disturbing reactions. It would at once indicate an inimical and hostile feeling towards foreign interests. It would savour of vindictiveness. It will involve a sudden change, which may not be in the interests of this country. It would seek to inflict hardship on others without corresponding, or any, benefit to India. A ' bag and baggage ' suggestion, however emphatic and clear it may be, is in the direction of destructiveness. It argues weakness, not strength, and it postulates a lack of careful and constructive programme.*

The wise method would, therefore, be to seek the middle path between those, who would wish for and would allow nothing to be done, and those who, with pardonable impatience, aim at securing the whole result at once. It must be remembered that it has taken foreign banking interests in this country seventy-five years to acquire the strength, which they have acquired. It is true that they had the free entry, they had the opportunities, and they had the enterprise. It is also true that they took advantage of the conservatism and the backwardness of this country, as well as of every other circumstance in the political and economic life of India, which served their purpose. But they are there to-day, and the proper method of dealing with them would not be by one stroke of the pen. In the first instance, restrictions should be placed on that part of their activity, which is immediately deleterious and which is admitted to be such by most impartial observers. The first aim should be to prevent further harm. In the field of banking itself, they are doing certain work, which they must be allowed to continue. Since banking is only one side, though a very important side, of the multiple economic life of the country, I recommend that there should be minimum departure from existing conditions.

212. In suggesting the restrictions, to which foreign banks would be subjected in this country, I have kept myself within the absolute limits, which the safeguarding of Indian interests require, I have only picked out regulations, which I consider most essential, and which, I think, constitute the absolute minimum. Briefly stated, these provisions are as follows:—

(1) It should not be open to foreign banks, or foreign persons, or syndicates to acquire controlling interest in any banking institution in India.

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* " There are enterprises which Indians regard as national, and which at present are mainly or wholly in British hands. It would be idle to expect that they would be content for an indefinite period to remain without their appropriate share in the conduct of these enterprises, and if the methods at first proposed in order to satisfy Indian hopes must be ruled out because they involve injustice or are inconsistent with the position which Great Britain holds in India, Indians may fairly ask that the British business community should co-operate in finding other methods to bring about the desired result."—(Government of India's Despatch on proposals for Constitutional Reforms, 1930, page 167.)

(2) No foreign bank should take deposits from any Indian-born person or company registered in India.

(3) A bank not registered in India should be ineligible for rediscount and other facilities from the Reserve Bank.

(4) The offices of foreign banks should be confined to the municipal limits of the principal ports in India.

213. The broad principle underlying these provisions is that only banks, which are registered under the Indian law, and which are controlled by a majority of Indian shareholders, should have full and unrestricted privileges in respect of banking in India. Such institutions alone are entitled to the use of that part of the savings of the people, which become bank deposits. Such institutions alone would be eligible for help from the central bank, which would be practically a limb of the state, and which would have under its control the most notable, extensive and concentrated accumulation of funds belonging to the people in India, *viz.*, the banking reserve, the currency reserve and Government balances. Stated in this form, these two fundamental principles of national economy are unexceptional. It is very high time that their application to the banking field should be secured by law. In the case of rediscounting facility by the Reserve Bank, fortunately, it would be possible to secure this without any difficulty, and I hope, without any opposition.

214. *Prohibition of interior branches.*—The object underlying the last of the four provisions, is one, which made a definite appeal not merely to myself, but to many of my colleagues on the committee. It was to safeguard the interests of Indians engaged in internal trade, from which they are being squeezed out by the facilities supplied to their own nationals by these foreign banks. It was also to safeguard the interests of Indian joint stock banks operating inland, which are adversely affected by the entry of foreign banks in the interior. Amongst the witnesses, Indian opinion, wherever it was definitely expressed, seemed to be clear and very emphatic on this point.

It may be noted, further, that a provision of this kind will affect only the nineteen branches of four of the foreign banks, who are all English. These branches are located at eleven places, four of which cannot be regarded as commercial centres, but are more in the nature of hill stations. At the other seven, the Imperial Bank is represented, and in most cases more than one Indian bank. The field covered by these branches of foreign banks happens fortunately to be largely in and near the Punjab, a province, in which Indian joint stock banking has made remarkable progress. It will not be open, therefore, to any one to argue that this will be a hardship on the trading community. It would undoubtedly restrict the operations of these four banks. It is permissible to suggest in their case, that, like all businessmen, they carry the risk of their trade, and one of the inevitable risks, which one runs, particularly in carrying on trade in a foreign country, is the change in the habits of the people of that country, in their customs and in their laws.

British enterprise, which has the reputation of being self-reliant, will not, I am sure, oppose this demand of Indian opinion, or risk the forfeiture of Indian goodwill through political machinations and propaganda.

It is only fair that, while no new branches of foreign banks should be allowed to be set up in the interior, some time should be given to existing branches to curtail their business and make suitable alternative arrangements. It may be expected that the foreign banks, when they are asked to withdraw their branches from the interior, will seek the co-operation of the Indian joint stock banks. or at all events of the Imperial Bank, which is already acting as their agents for the interior, wherever they have no branches. The extension of such co-operation would be welcome and would be helpful to both sides. Business arrangements, however, do not permit of a sudden change-over. It is, therefore, recommended that a period of three years certain, but perhaps five, if a representation is received from them justifying the longer period, should be allowed to enable the banks to remove their branches. If it is a period of five years, it is essential that the removal should be by a definite programme, which may be agreed upon by the banks concerned and it should be *pro rata* during each of the five years, the idea being not to permit the foreign interests to nullify the provisions of law through a period of grace, which is allowed merely to enable them to withdraw their business from the interior without serious hardship, or serious loss.

215. *Controlling Interest.*—The question of controlling interest and its economic effects, which are examined in detail in the next chapter, is purely consequential on the restriction with regard to internal branches. If foreign banks are not to have branches in the interior, and if banking in the interior is reserved for Indian banks, it follows that the provision should be one, which could not be easily evaded. The most obvious method of evading it would be to transfer the interests of one of the branches of these foreign banks to a new Indian company registered in India, which may be owned in entirety, or to the extent of the controlling interest, by a foreign bank. No useful purpose will be served by a mere formal exclusion of the branches of foreign banks from the interior, if this loophole is kept open. The question of the acquisition of controlling interests in Indian institutions by foreigners has, however, already gone beyond the theoretical stage. The Chartered Bank has acquired one of the big Indian joint stock banks, *viz.*, the Allahabad Bank. It is understood that the European holding in the Allahabad Bank is 94 per cent. of the total shares, and there is only one Indian on the Board of this concern. While acting as an independent business entity, the Allahabad Bank serves in reality as a filiale of the Chartered Bank. It has as many as 46 branches and sub-branches and it covers an important territory. In its policy and in its practice as between European and Indian trade, the Allahabad Bank can no longer be expected to act differently from its parent bank. If this door of foreign penetration is not closed, there would be no guarantee that it may

not be used in future for the extension of a system, which is harmful to the interests of India. Who can say whether foreign banks have no designs on the Imperial Bank? It means that Indian banks do the pioneer business. They open up the territory. They build up a clientele, and a powerful foreign interest promptly comes and grabs a ready-made machinery and turns it to its own account. This way lies the peril to the progress of Indian banking. Further, since the path of Indian joint stock banking is to be made smoother and its growth is to be encouraged, various measures of reform, larger inducement and greater help have already been discussed and suggested. If the benefit of these provisions is availed of by foreign interests through their ability to register new companies in India, or to acquire control of old ones in the field, it would mean that there would be less advantage for all to go round, and it would mean the negation of an implied preference, and of privilege to Indian enterprise. The recommendation is, therefore, made that in future it should not be possible for any foreign bank, person, or syndicate to acquire controlling interests in a banking institution working in India.

216. With regard to the Allahabad Bank, logically and properly, if the recommendations, which are made by me, are carried out, it cannot function as a bank any more. It cannot come under the licence as a foreign bank, and it cannot enjoy the special inducements and privileges, which are being given to an Indian joint stock bank. If the measures recommended, restricting controlling interests in foreign hands, are passed, it would be the last of its kind. The authorities of the Chartered Bank, who control this institution, would be entitled to great sympathy and every consideration. They should be called upon to submit a scheme, by which, with minimum disadvantage to themselves, they can transfer to Indian hands the controlling interests in the Allahabad Bank. From their point of view, frankly it means selling out and possibly at a loss. From the Indian point of view, on the other hand, the continued existence and operation of the Allahabad Bank under foreign control is a menace. Several alternatives would be clearly open to the shareholders of the Allahabad Bank to conform with the change in law, which is recommended and which would prevent controlling interests in alien hands. The choice will be theirs, but, in order that they may be put to minimum inconvenience, it is recommended that a period of three years should be allowed to enable them to effect the change.*

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* The following provision in the Majority report is obviously intended to convey, that controlling interests in Indian banking institutions shall not fall into foreign hands in the future :—

"For the same reasons we recommend that no new bank other than a foreign bank should be allowed to operate in British India unless it has a majority of Indian shareholders and is incorporated under the Indian law."—(Paragraph 690, Majority Report.)

I do not know what this implies, and whether it is intended to leave the Imperial Bank of India and the Allahabad Bank with their existing majority of foreign shareholders as they are.

217. *Effect of the system of licence.*—What would be the effect of a licence involving such terms on the operation of the foreign banks in India, may now be examined. The public in India must be fully prepared for a serious hue and cry on behalf of foreign interests, representing restrictions and terms of this kind as a damaging blow to them. Provisions of this kind will be characterised as expropriatory and confiscatory and hard words will be used, the wisdom of the Indian legislature would be questioned, the disregard of international goodwill would be brought into the discussion, and all round, there would be a furore. Foreign interests in India are not yet used to the idea of constructive economic programme devised for the welfare of India, but for all parties concerned, the sooner they get used to it, the better. Nothing is to be gained by superlative wails with regard to purely political action, because the proposal for licence and the terms involved therein are not political.

The effect of the proposed changes and restrictions will be that 19 out of a total of 88 branches would be unable to function after the period of five years, but only four out of the 19 foreign banks will be affected. Foreign banks will have to employ for their interior work either the Imperial Bank or some other Indian joint stock bank. They would have to curtail some of the work in internal banking, in which they are engaged because of the loss of deposits, unless they choose to bring over the money from their respective countries, which are rich and where these institutions can borrow at a rate, that would not compare unfavourably with the rates, which they have to pay in India.* It may be, however, noted that the deposits, which they are precluded from having, are deposits only of Indian persons and Indian joint stock companies. On their own showing in statements contained in paragraph 163, their loans and advances to non-Indians were Rs. 15·24 crores and the deposits from such non-Indians were Rs. 27·49 crores.

They will lose a portion of their deposits in this country, but they will have deposits from non-Indians and that portion of their own capital and reserve, which is assignable to India, as well as their deposits at their own head offices and elsewhere. Only a small fraction, thus, of their total working resources would be reduced and it is ridiculous to suggest that any of these banks will be crippled. Such at least is the indication from the lump figures which are available, of their operations in this country.

218. If there are one or two institutions which are likely to feel the effect of such measures more than others, they have to blame themselves for keeping their operations secret. The foreign banks, it may be further noted, would, even after the restrictions proposed have been instituted, be able to carry on all the functions and activities, in which they are now engaged. They will be able to buy and sell foreign remittance, to discount inland and foreign bills, to sell drafts, to collect money from inland bills, and to give

* *Vide* Annexure II for foreign deposit rates.

loans and advances with or without security. They will be able to render to their clients all banking service, as before. They will be free to borrow from foreign persons, firms and companies in India. It will be noticed that the restriction with regard to the deposit of Indian money with them, will not make it impossible for them to function as banks in all respects as hitherto. It cannot be seriously suggested that a reduction, on their own showing, of Rs. 38·36 crores in funds, which they collect from Indians, cannot be replaced by these powerful interests from the fabulous resources, which their own money markets possess. To the non-British foreign banks the amount of Indian money thus lost is a mere flea-bite, being only Rs. 3·76 crores. That Holland, United States of America, Japan and France would be hard put to it to replace their share in a shortage in their working resources of such a small amount, is an absurd proposition.

219. The position of the British banks may be examined for a moment. The amount of Indian money taken by them on current account is Rs. 16·6 crores and on fixed deposit Rs. 18·5 crores, making a total of Rs. 35·1 crores. This is a large sum as money goes in India, but it is, as I shall show, a very small fraction of the total resources of these banks. Since the British banks have supplied the figures cryptically and mysteriously "approximately" for "eight principal British Exchange Banks", without mentioning which eight they are, it becomes somewhat difficult. If the following statement, therefore, does not do justice to the position, they have to thank themselves.

The deposit position of 8 British banks operating in India.

	Total deposits according to Balance Sheet.		Total deposits in India.	
			From Non-Indians	From Indians.
	(£ Million)	(Rs. Crores.)	(Rs. Crores.)	(Rs. Crores.)
Lloyds	352·0			
Chartered	44·0			
National	34·0			
Mercantile	13·5			
P. & O.	7·2			
Eastern	6·1			
Thomas Cook	2·9			
Hongkong	55·0			
Total	514·7	686	22·8	35·1

It will be noticed, therefore, that roughly on this calculation, the British banks would stand to lose 35 out of 686 crores, *i.e.*, about 1/20th of their total resources from deposits. Will it be so difficult for them to make up the wastage from more deposits in London? Their borrowing rate in London, even when the cost of bringing the money over is added to it, would not exceed the rate, at which they are taking the deposits here. If they brought over substantial funds for a long period, the cost of taking the funds back as well as bringing them out, would be spread over more than one year, and need not be heavy under the fixity of exchange which Government have established. Will the London money market resent their taking funds away? The apologetic assurance of the Chairman of the Lloyds Bank, that English funds were not being taken out, would indicate that this would be so. It is, therefore, a matter entirely of domestic policy for the British banks as a whole, whether they would put up with the inconvenience of taking away some funds collected in the United Kingdom for use in India, in order to earn a high rate of profits on loans and advances here, or, whether they would prefer to abandon the Indian field to that extent. It really comes to a question of the mobility of English banking capital and of its being used, where it can earn most. England has boasted in the past of her financial internationalism, and this would be the test. There can be a middle way and a compromise in the sense, that the wastage created by the withdrawal of Indian deposits may be only partly made good by funds brought over from England for the retention of the more profitable of the existing business of loans and advances. There may be still another method of getting over the situation, much less inconvenient to the British banks. They are holding a certain amount of Indian Government securities now and they may borrow from the Imperial Bank, or from the Reserve Bank when it comes to be established, on the strength of such security, increasing the volume of their holdings according to their needs for loans and advances. British banks, it may be pointed out, have a definite way out of the situation, and it is hoped that they will not, therefore, resent or decry and upset a measure most necessary in the present economic condition of India as part of an economic policy, a measure of conservation of the savings of her people and of utilising such savings as the foundation of a truly Indian banking system.

220. Except for these points, which are definitely mentioned, in all other respects, they will be able to carry on their work without any let or hindrance. If such work ceases to be profitable, their course of action is unfettered, as it was when they came attracted by profits. The profits, it has been well established now, have been somewhat reduced by an increase in their own number. It is the decline of these profits, which has compelled the British banks to seek the more sheltered areas inland. A re-adjustment amongst themselves has in any case become inevitable, even if no measures of any kind were taken. The justification, which these foreign banks have usually employ-

ed in the discussions relating to them, *viz.*, that they are rendering valuable service in the field of foreign exchange, would still remain for them, and they would still be in a position to carry on their work in this field without interference. They would still be able to render services to their own nationals from moneys, which, it is claimed, these nationals deposit with them, and they would still be able to earn profits by banking service to Indians from funds brought over by them from abroad.

It is inevitable that those, who have worked freely and without any restrictions, must resent the imposition of restrictions of any kind. It is further in this case unavoidable, that those, who have lived their life under the idea of being a superior and ruling race, should strongly resent having to take out a licence at all, and further that such licence should contain terms of this kind, when the authority issuing such licence would be directed by, and responsible to, the Indian legislature. If sentimental and political objections from the foreign side to the proposed system of licence and to the proposed terms were discounted, it will be noticed that there is no serious room for economic complaint by foreign banking interests. It is true that the field of profit gets restricted. It gets slightly restricted for foreign banks and slightly expanded for Indian joint stock banks. Charity has to begin at home and since nothing can be produced from nothing, elbow room for Indian institutions has to be secured by the imposition of terms, which, as they are enunciated, must be regarded as extremely moderate and reasonable.

CHAPTER XV.

FOREIGN BANKS: THE ECONOMIC EFFECTS OF RESTRICTIONS.

221. *Prohibition of Indian deposits in foreign banks.*—Indian opinion, as registered before the Committee, can be considered to be unanimous in the view that some serious steps would have to be taken with regard to foreign banks working in India. It was realised that the present position was unsatisfactory from the point of view of the safety of the depositors. It was felt also that foreign banks were enticing more deposits than could possibly be required for the finance of foreign trade. It was also pointed out that the deposits with them had considerably increased and had enabled them to penetrate far inland and to engage in internal banking. It was stated that they were underpaying the depositors in India, who could earn more on their savings, if these moneys were invested with Indian institutions or in Government securities. Apart from this injury to the depositors and the lack of safety, it was urged that the lower rate, at which foreign banks could take deposits, enabled them to compete with indigenous bankers and Indian joint stock banks in giving loans and advances on unequal terms. It was, therefore, urged that a tax should be levied on the deposits received by foreign banks to eliminate this unfair advantage. Lastly, the remedy, which found the greatest measure of support from Indian witnesses, was that the foreign banks should be prohibited from taking deposits in India.

It will be noticed that the measure, which is recommended in this report, is that foreign banks should not take deposits from Indian-born persons, firms and companies registered in India. This not only leaves them the right of taking deposits, as such, from parties other than Indian, but, in practice, leaves unimpaired a very substantial portion of their deposits. The economic justification for the measure recommended is to be found briefly in the fact that the savings are meagre in India, and of such savings the amount of money going into bank deposits is again limited. It is the mere accident of some of the foreign banks being older in the field, which secures them a continuance of some Indian deposits, and interference would, therefore, be justified in erecting a barrier, which would prevent the flow of Indian savings in foreign institutions. The economic life of the units constituting the nation in India is much closer and much more interwoven with each other, than it is with the economic life of any foreign individuals. The legal and political institutions of the country, which go to constitute the state are also different, and this state is financially supported not from the resources of any foreigners, but from the resources of Indians. There is a terrible reality in India of to-day in the use of the word 'foreign' in reference, not to superficial differences, but to economic interests. Indian institutions have come into existence and languished, to the great detriment of the enterprise and resources of India, without any parties being seriously concerned about it.

Indians alone have to organise their life to complete the links in the economic chain to stand by each other against the inroads of foreign economic interests. There is no room yet for internationalism in finance in India, until financial organization on national lines is properly established.

222. On the savings of the Indian people, which become bank deposits, Indian institutions, Indian trade and Indian industry have an absolutely prior claim. It is trite to deplore the flight of capital. Even the Finance Member of the Government of India has recently done so. The notion behind this is that capital, which represents the savings of the people, must go to enrich the money market and the financial system of a nation and must not go abroad. The oft-quoted apology of Mr. Beaumont-Pease with regard to the United Kingdom, which, from the Indian point of view, stands at the other extreme of wealth and affluence, had the same notion behind it. This is how the Editor of the " Indian Finance " commented on it.

" Obviously, Mr. Beaumont-Pease's object in making the declaration was to refute the notion that has begun to spread in British lay circles that British banking resources were being utilised for objects other than the furtherance of British trade and industries. When the people of a country, whose prominence has been built upon the mobility of its capital market and on the international character of its financial structure, can pose these questions, it is no matter for surprise that Indian traders and industrialists, no less than Indian publicists and economists, are asking themselves whether the banking resources of India are being administered to the best advantage of her nationals and for the furtherance of Indian trade in the broadest sense."

The demand in India is thus based on a fundamental economic principle. To give the control of Indian savings in foreign hands is opposed to the primary principle, on which the economic life of western countries is based.

223. Those countries, which claim in Europe an old banking system were never obliged to pass a law in connection herewith, because the evil never arose. They had their own banks and their people had the necessary patriotism as well as sense of enlightened self-interest, which involved the concentration of national bank deposits in national institutions. But banking systems had to be built up in new countries, which had to model their institutions on Europe, and the aim has been uniformly to exclude foreign institutions from the use of local funds. The tradition on this subject in the United States is long and continuous, and New York, where banking wealth is beyond the dream even of some European countries, leads the States of America in this respect, by a definite provision against American money going into alien institutions. In Canada, the gordion knot is cut by the requirement, that every bank working in Canada shall be established under the Canadian Bank Act. In Japan, which has offered to the world a standing model of patriotism as well as of national economic development on the basis

of common and general interests, foreign banks operated long before Japanese banks came on the scene. There is no law prohibiting the taking of deposits in Japan by foreign banks,* but that is only because such a law has not been necessary. The tyranny of Empire banks operating from London has been felt by Canada, South Africa and Australia, and they have attempted in various ways to get free from this tyranny.†

They have adopted various measures, the details of which would be out of place in this report, but in principle they aim at the establishment and growth of local institutions, in whose operations loyalty to Canadian, South African and Australian interests, would be supreme and would come prior to any attachment to, and control of, any outside interest. On the continent of Europe itself, many measures have been taken against operations of foreign banks, not only by small and weak states,‡ but by larger powerful states. The

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* There was some doubt on this point:

"Fullest discretion is given to the Finance Minister to refuse licence to them or impose any restrictions on their work or require any statements from them. *He can forbid the bank to take deposits,* he can disallow it from opening branches at any particular place; he can subject it to any special tax, and in general he can curtail its scope so as to prevent its competition with any national bank."—("Indian Finance," Banking Enquiry Number, page 46.)

† "Lastly, the problem which this amalgamation will inevitably raise for the South African Reserve Bank to solve, will be of an altogether unprecedented importance, and these do not seem to have received much attention.

"'The recent amalgamation',' writes a local observer, "'makes it more than ever imperative that the Reserve Bank should pursue a more active and more forceful policy; otherwise it seems improbable that it will be able effectively to control currency and credit.'"

"It is difficult to believe that it will ever be able to do so, while the present intimate connection of the banking system with London lasts." ("The Imperial Banks," by A. S. J. Baster, pages 242—243.)

"It is perhaps not unreasonable to assume that Lloyds intended taking over the Canadian bank, but were purposely forestalled by the Bank of Montreal, which, as the acknowledged leader amongst the Canadian banks, felt itself bound to resist this new form of dictation from Lombard Street. This seems more likely, as the terms offered by the Bank of Montreal were unusually munificent. Both banks were in excellent condition at the time, there was no case of amalgamation in order to strengthen the weaker member, and since the Bank of Montreal was already well represented all over Canada, this was no case of geographical expansion. If the Bank of Montreal really moved in order to forestall Lloyds, this is a most interesting case (and one that conceivably might have much wider bearings) of the amalgamation movement in England producing reactions all over the Empire. The exactly parallel case of the attempted absorption of the National Bank of India by Lloyds and the consequent hurried amalgamation of the Presidency Banks is noteworthy in this connection."—("The Imperial Banks," by A. S. J. Baster, pages 225—226.)

‡ "During the war, one of the banks went a little farther afield, and opened branches in Spain, but the experiment was apparently unsuccessful as these branches were closed in 1923,—probably on account of trade depression and Spanish legislation designed to discourage the establishment of foreign banks in that country."—("Foreign Banking Systems" by Parker Willis and Beckhart, pages 1181—1182, on the chapter on "The Banking System of the United Kingdom.").

fundamental principle in all these directions is that the economic life and growth of a nation is its own concern and should not be allowed to be interfered with by foreigners. Wherever such interference takes a serious form, it should be checked by law. The evil, it may be noted, is nowhere as great as in India. No parallel could, therefore, be found, and this would justify more drastic action by the Indian legislature in this direction than has been attempted elsewhere. The measures suggested in this report, however, err on the side of moderation. In the case of prohibition of Indian deposits in foreign banks, the economic justification is absolutely complete.

224. The economic grounds urged against this measure were summarised by Mr. MacDonald, Managing Governor of the Imperial Bank. It is a curious commentary on the Indian situation that opposition to a measure conceived in national interests should come from the Imperial Bank, which has derived so much benefit directly and indirectly from the Government and people of India, and which claims to be a pioneer Indian institution.* I shall let Mr. MacDonald speak in his own words.

"*Mr. Manu Subedar.*—There are two considerations which have been put before this Committee in connection with these deposits. One of them is that Indian institutions have a prior right to the savings of Indians in this country and that something should be done to divert the whole or a portion of the deposits going into foreign Exchange Banks at present. What is your view on this?

Mr. MacDonald.—My answer is this. The result would be that the Exchange Banks would have to transfer funds borrowed in other countries and/or borrow from the Imperial Bank of India to replace the Indian deposits, which they now have to the extent required for their exchange business. Exchange operations would be hampered considerably, and the higher cost of funds would possibly necessitate increased exchange margins. In as much as foreign funds were brought in, the interest on them would leave the country. Their finance of internal trade would be allowed to decrease as they would not bring in foreign funds or borrow to any great extent for this purpose. The Shroffs, merchants, etc., who are now financed by the Exchange Banks, would have to go elsewhere for the majority of their finance and the deposits formerly taken by the Exchange Banks could also be diverted to other banks. Owing to their very high financial standing and their very strong balance sheets the Exchange Banks are able to borrow their funds in India at low rates of interest and correspondingly low rates are charged to the shroffs and the merchants. The Indian depositors place their funds with the Exchange Banks and accept the relatively low rates offered as they are satisfied that their deposits are quite safe and they would be unwilling to place them with banks on which they do not place so much reliance except at higher rates and to a large extent not at all. Probably the only non-Exchange Bank, which could attract the bulk of their deposits, is the Imperial

* Question No. 7948 from Evidence Volume.

Bank of India and the prohibition would give that bank a semi-monopoly. In as much as funds were deposited with other banks at higher rates the cost of finance to the shroffs and merchants would increase correspondingly and trade would suffer."

Was it that Mr. MacDonald should not have been aware that out of the total deposits taken by the foreign banks in India, Rs. 66·3 crores, only Rs. 38·86 crores was Indian money? Could it be that he was unaware that, out of this sum, the amount engaged in foreign bills was in the neighbourhood of Rs. 11 crores only? It is true that he had not the statement before him, which the 'exchange' banks made available to us afterwards, but could the general lines of the working of the foreign banks have remained such a mystery, even to the premier banker in this country, who has spent about thirty years and who is the head of a Bank, which has acted in a true sense as the banker of these foreign banks? Mr. MacDonald himself in his subsequent examination admitted that the present deposits were not only adequate for the finance of foreign trade, but enabled the foreign banks to engage in internal banking.* The possibility that, by offering ½ per cent. more, the foreign banks could attract much larger deposits and even some of the money, which is going in the Imperial Bank now, was also not denied by him.† It is not, therefore, a danger of the depletion of finance for foreign trade, but the menace to the banking system of the country, which has to be considered. If India does not take the necessary steps for restricting the flow of Indian savings into foreign banks, there is nothing to prevent the foreign banks, as a matter of business, to take the necessary steps for increasing such flow to the detriment of Indian institutions. Mr. MacDonald deprecated the proposed restriction, because it would divert the money to other banks, including his own. If all of it went to the Imperial Bank, he envisaged the creation of a money trust and semi-monopoly. If it went to other banks, he was worried about the safety of the deposits and foretold that the cost of finance to shroffs and merchants would increase correspondingly and trade would suffer.

225. It would be noticed that Mr. MacDonald evaded the original question put to him, *viz.*, whether Indian institutions should have a prior right to the savings of Indians in the country. He has not refuted that principle. In dwelling on the consequences of the diversion of deposits from foreign banks, he has exercised a very great self-denial on behalf of his own institution, illustrating more emphatically than anything else could have done, how non-Indians engaged in banking business in this country, no matter for what institutions they are working, hang together. From the representative of the Imperial Bank, which has been fed on exclusive privileges now for the best part of a century, and whose search for new exclusive privileges constitutes a very difficult problem in settling the banking future of this country, opposition to the creation of a condition, which would help them in constituting, what he

* *Vide* question No. 8210, Oral evidence.

† *Vide* questions Nos. 8211. 8212. 8213, 8214 and 8216, Oral evidence.

calls, a semi-monopoly, can hardly be regarded as genuine. I must, therefore, take it that Mr. MacDonald, in expressing his opinion, was speaking for himself and was genuinely concerned at the creation of anything in the nature of a money trust in India in the hands of the Imperial Bank of India. There are other directions, in which such a fear could be entertained, and there would be other methods of dealing with the situation, when it arises. But, in the discussion of the proposal for diverting Indian deposits from foreign banks, the introduction of this topic appears to me to be very far-fetched.*

The arguments of Mr. MacDonald are not conclusive even as far as they go with reference to the other banks. If more deposits are offering, Indian joint stock banks may be enabled to reduce their rates and they would use the benefit of such reduction for strengthening their position, or, by competition amongst themselves, transfer it to the borrowing public. Mr. MacDonald also assumed that Indian shroffs and the trading community are receiving accommodation from ' exchange ' banks at a cheaper rate, and the benefit of the lower deposit rate is thus wholly transferred to the public. It has been definitely suggested in our enquiry, that the benefit is not invariably transferred to the public, but is retained by the foreign banks, and the difference of borrowing and lending rates constitutes no mean part of the large profits, which they pile up.

226. That the benefit of Indian deposits taken at low rates by foreign banks goes invariably to the Indian commercial community, is an altogether unwarranted assumption. An atttempt was made by me to examine it from another point of view.

Question No. 8219.—Mr. Manu Subedar: You know that even now this money is not being used in India? Mr. MacDonald: You mean it is used for export?

Question No. 8220.—Mr. Manu Subedar: If money is taken in India and used in Ceylon, Malay Peninsula or Japan, you would not interfere? Mr. MacDonald: That involves a big question and I would like to consider it.

Question No. 8221.—Mr. Manu Subedar: Would you favour us with your views later on? Mr. MacDonald: Yes.†

In his letter dated 29th October 1930, Mr. MacDonald sent his views as follows:—

" I have considered this question‡ and am strongly against any interference with the free flow of bankers' funds between different countries. Interference with economic forces must in this, as in

*The deposits of the Indian Joint Stock Banks and the Imperial Bank of India are already Rs. 135 crores. It is doubtful if all the Rs. 38 crores withdrawn from foreign banks would seek reinvestment as deposits. Further, Mr. MacDonald himself feels, that the bulk would be attracted to the Imperial Bank. Would Rs. 20 or 25 crores more in the Imperial Bank really lead to the danger of money-trust, or is this an eyewash?

† Oral examination of Mr. MacDonald by the Central Banking Committee on 27th September 1930.

‡ Q. 8220. Oral evidence.

other instances, react in ways which largely defeat the purpose aimed at and cause hardship to third parties. In my view the interests of depositors as well as those of borrowers must be considered. If banks cannot find sufficient suitable investments in India for the potential deposit money, they must reduce deposit rates or invest money elsewhere. The higher the rates paid to depositors, the more money they have to spend and the borrowing classes, *viz.*, traders and producers, benefit thereby. Further as stated elsewhere I do not consider that trade or industry in India is in any way starved for finance. In my experience failures have been caused by bad management and not lack of funds. India has probably benefited more than most countries by the use of foreign capital and, if freedom in the movement of capital is interfered with, foreign capital will not be so readily available." It will be noticed that the phenomenon of the export of Indian capital by foreign banks is not denied, but defended. Any interference with this practice, according to Mr. MacDonald, would lead to:

(1) a reduction in the rate of interest to depositors, which will reduce their spending power and affect trade and industry, which rely on such spending power, and

(2) a threat that, if India prohibits the use of her money abroad, there will be retaliation and the flow of foreign capital to this country will stop.

I shall not discuss these points, because they are covered by discussion elsewhere in this report. Mr. MacDonald is looking at the matter from a standpoint diametrically opposed to the unanimous view of Indian witnesses and Indian commercial opinion, when he says: " I do not consider that trade or industry in India is in any way starved for finance."* India could be generous and allow her funds to be exported by foreign banks, if and when she has a surplus, but there is no scope for argument with those, who believe that the banking organization of this country is perfect with reference to the requirements of trade and industry. The legislature would not have urged the appointment of the Central Banking Committee. Nor would Government have accepted their request, had it been so. The main plank of those, who resisted the suggestion about restricting foreign banks from taking Indian deposits, was that the mobility of capital should not be interfered with, and that it was the business of the banker to collect the money where he can, and to use it where he can, to the best advantage. The application of this doctrine inside a country is wise and sound one, though even there, some of the Provincial Committees have very rightly pointed out, the pheno-

* Others do not think so, as the following will show:—

" That greater facilities for credit both to agriculture and industry are an urgent desideratum in India no one will deny. I would only emphasise in this connection that the first requisite is to increase the amount of capital available to be lent. If this can be done, capital will itself seek outlets, and the competition for them will be a material factor leading to reduction in the rate of interest."—(Address before the Delhi University, 1925, by Sir Basil Blackett.)

mena of bank branches in the interior being made conduit pipes for drawing away the savings of the people from the mufassil. The complete realisation of the ideal of free mobility would, therefore, be only, when money moves down freely from wherever it is plentiful, and, subject to the nature of the security and the cost of such movement, money rates will be equalised. Does money move down freely to India from other money centres? Is such movement belauded and encouraged by the financial authorities at other money centres? Everywhere in the world conservation of national resources receives the primary consideration. It is only the export of surplus funds, which is allowed. Even in this matter, it is notorious that in the interests of 'Home' railways and 'Home' industries, it is nothing unusual in financial discussions in the United Kingdom itself to inveigh against the export of capital. The idea is that individuals collecting such funds and exporting them might gain a high return, but the nation as a whole suffers. The export of Indian savings at the hands of the Chetties for employment abroad and the larger operations of the Chettinad Bank in foreign centres might come to be commented on this score, but there is a material and serious difference, and, that is, that at least the increased return on such moneys is going in Indian pockets, that the activities of the Chetties abroad are creating a balance in favour of India. It is in the reverse direction to the drain, but the export of Indian capital collected cheap in India by foreign banks cannot have that, or any other justification whatsoever. With high money rates ruling in India for trade and industry, for whose condition Mr. MacDonald showed such a marked concern, I would not allow the transfer of Indian savings, even to the extent of one rupee at the hands of foreign banks. I am convinced that if it pays the Chetties to use Indian moneys in that region of the far east, where they have penetrated, it must be also paying the foreign banks. They have not disclosed their operations, and the extent, to which they are, therefore, using Indian funds abroad, remains a mystery. The use by them of such funds is, therefore, a double injury,—an injury to the Indian depositor, who receives a low return, the surplus going into foreign pockets, and an injury to Indian trade and industry, which has, on account of such diversion, to bear higher charges.

227. In the light of the above, Mr. MacDonald's suggestion that "inasmuch as funds were brought in, interest on them would leave the country", becomes very interesting. The bringing of foreign funds in India under safeguards and on reasonable terms for the benefit of Indian trade and industry, has not been opposed. In fact, it has received a very definite measure of support at the hands of the External Capital Committee in the following words:—

"Subject to the limitations given below, the inflow of external capital is not only unobjectionable in itself, but is a valuable factor in assisting the economic development of India."*

* External Capital Committee Report, page 15.

Can it be denied that the importation into India of additional capital at the hands of foreign banks, to replace the void created by the withdrawal of Indian deposits, would be good for India? In the market for loanable funds in India, there would be more funds, and the Indian money market would be enriched. It was the claim of the British banks in the past, that they were bringing such funds in, which was advanced to support their case with the Government of India, as would be seen from references from Government of India's despatches set out in Chapter XI. Since these discussions, conditions have changed, but they have not changed so far, that foreign banks could present the problem of bringing foreign funds to carry on their work as a calamitous danger to the Indian economic system. The payment of interest on money used in India would be a legitimate obligation. It is not the export of interest, which is a menace to the economic life of India. It is, in the first instance, the export of her capital at the hands of foreign banks, and then the export of trading profits and banking profits earned in this country by foreigners through the use of the Indian money, which are at present objectionable features.

It is the export of such capital, which goes to enrich the economic life of countries other than India. With the profits, also goes the skill and experience involved in the operations. These are transmitted assiduously to their own nationals by the foreigners and the first step in the orderly growth of banking in India is the establishment of the principle that Indian savings shall not be a part of foreign banking deposits.

228. *Right of the depositor.*—The question of the right of the depositor to do what he likes with his money has been raised.

Manu Subedar.—Q. Would you allow the deposits of Indian money to swell the working capital of foreign banks established in India?

Sir Osborne Smith.—A. Yes, there should be no interference with the deposit of Indian money with foreign banks in India. I am strongly against any interference in matters on this sort, as people should have the right to invest their money as they wish: the more banks there are that compete for their money, the greater facilities the public will enjoy.

I am very glad that the question of the right has been raised by an eminent banker like Sir Osborne Smith. It is most important, it is fundamental, and must be examined.

The freedom of an individual to do what he likes and to advance his own interests, is relative and not absolute. When a firm of coal merchants at Glasgow was found selling coal to the enemies of the United Kingdom, at a great profit to themselves no doubt, they were promptly hauled up as traitors, and an exemplary punishment was meted out to them for treason. In times of peace, anti-national acts are much more difficult to define and to detect. But every well-organised nation keeps vigilant to

see that common interests do not suffer through individual and separatist action, and that no individual acts in a manner, which would increase the difficulties of the common task of the nation. A careful lookout on the leakages in the economic life of the country is the characteristic feature of those nations that have prospered and held their own, or, of those like Japan, Italy and Turkey, who had to face great odds to secure their place in the international world. Gaps would be noticeable in India in this direction on account of causes, which need not be discussed here. It becomes difficult to locate and ward off leakages in India, when they arise from individual action in the ordinary course of commercial life, where such action has been for a long time openly condoned by the people and has ceased to arouse either comment or surprise.

The question raised is one of the individual's right against the nation. The first principle of national life is that, individuals combine together and look to the support of each other in all respects during peace and war against the outside world. On the spending power of the nation, the producers of the nation have the first claim. On the employments in public and private enterprise, the nationals of the country have a first claim. On the patronage of the state directly and indirectly, the nationals have the first claim. On the protection of the state, an absolutely prior right belongs to the nationals. On the resources of the country, the first claim in India is of Indians, and the savings of the country, which constitute the capital and which constitute the means for developing the trade and industry, cannot be, therefore, placed at the disposal of any but Indians.

229. The private right of owners of property in all countries is in subordination to larger considerations of national life. In many countries, foreigners are not allowed to own property as the best means of avoiding complications or of introducing a large amount of vested interests. Every individual property inside a state exists until it interferes with the state and either for such interference, or for other public cause, it is capable of being acquired, not at a value put by the owner of the property, but at a value which the state considers fair. All rights in individual property are subject to the laws made by the state, which the state has full right to vary in common interests of the country. The laws affect the manner of ownership, the nature of the title, the nature of the transfer and the nature of the devolution in the event of death. In common interests, again, of the nation, every state has the right to intercept the fruits of private property by way of taxes, which have to be paid and which come absolutely prior to everything else. The entire foundation of law and taxation in every country presupposes the limitations of private ownership and of rights arising from such ownership.

In its application to capital, which has been saved by individuals, these fundamental ideas have got to be studied, and on close analysis, it would be found that the rights of an individual to his savings are rights as against other individuals in the

country, but not against the nation. He has his right to his savings being protected from interference by other individuals both in corpus and in usufruct. His rights exist against other constituents of the nation, but not against the nation as a whole. The state, as the mouthpiece of the nation, can, therefore, dictate what he shall do with his savings and what he shall not do, and no rights could be pleaded against that.

Any direction by the state must be presumed to be the result of a full consideration of all issues securing a net advantage for the community. All individual rights in a modern state are restricted with reference to the rights of other persons in the community. As against those, who have savings, must be considered those, who show enterprise. It is from the activity of producers as a class that the wherewithal for the support of the nation arises. Even in a moderate statement of relative claims, the active section of the community would come much prior to the drones of society. The possession of wealth, whatever it may mean to those, who own it, is not a symptom, at which the community can rejoice, unless this wealth is part of the total assets of the nation. The pride in the wealth of a nation arises from this fundamental expectation. Otherwise, Britain ought to be proud of American millionaires and India to be glad that the wealth of the world is increasing, while she is being impoverished.

230. There has been greater interference in many countries with individual rights in the matter of trade, shipping, insurance and banking. Owners of such concerns have been precluded from doing certain things and have been asked to do certain other things, sometimes to the detriment of their individual opportunity and gain. Very severe steps have been taken in different countries with regard to the export of capital and operations in foreign exchange. Identical measures adopted in any particular country cannot be adopted in India, because the situation is not the same. Each nation has to devise a remedy according to the conditions, which it is called upon to deal with. Those, who feel the inconvenience of any particular state measure, can grumble, but it is only the force of public opinion, which secures the passage of a law, sustains that law during its existence, and is ultimately responsible for its repeal. No one, in any other country has, however, raised the fundamental question as to the right of the state to interfere with private individuals in their own interests as well as in the interests of the nation. It is only theoretical anarchists, and nihilists, who want no regulation and who want all negation of state.

It will be noticed that the interference with the right of an individual to his own wealth, which is suggested in the restriction of Indian savings being placed with foreign banks, is thus reasonable and sound and in conformity with notions, which have governed the economic life of advanced countries. Promotion of the enlightened self-interest of the nation brings more good to all, than individual pursuit. This is strigingly illustrated by the

case of national economic policies pursued by Germany, Japan. and since 1922, by Italy. It is further illustrated in the case of Turkey. Where the nation was ready, or was compelled to act as one man, many problems, which were difficult, became easy. Where individual tendencies to break away, are controlled, success is ensured to common policy and the fruits of the success are uniformly available to all, to the taxpayer in the increase of his resources and in lightening his burdens, to the producer in larger capital being made available to him on easier terms and of better price being realised for his produce and for his output, to the saving classes in better security near at home, available at all times, not likely to be frustrated by international complications.

231. *Safety of Depositors.*—Mr. MacDonald, in his reply quoted above, referred to the belief of the Indian depositors, that their funds in the hands of foreign banks are quite safe. The safety of depositors forms an important part of our reference, but did not come up for discussion except with regard to the following recommendation of the majority (the representative of the 'Exchange' banks dissenting):—

"It has been suggested to us that special safeguards should be provided for protecting the interests of Indian depositors and creditors in the event of winding-up of non-Indian banks..... We recommend that there should be some arrangement under which the Indian creditors of a non-Indian institution taken into liquidation should have a prior claim on its assets in India and should also share in the general distribution of its assets outside the country should there be a shortage in the assets held in India."*

This recommendation came to be made largely on the basis of what was reported to be the practice in Japan, not merely with regard to banks, but with regard to firms. The episode of the suspension of payment by the branch of a Japanese bank in Bombay had also something to do with this recommendation. I have joined in this recommendation and embodied it in the terms of licence, which is to be issued to the foreign banks, but I am not convinced that such a recommendation could be effective. The facility, with which a branch of a foreign bank working in India can turn many of its securities into cash, and can remove the whole cash by telegram abroad, discloses the weakness and futility of any such provision. I have been convinced after anxious thought, that Indian depositors in foreign banks stand exposed to a risk, against which no effective protection can be given to them. In placing their money with foreign institutions, they seek their safety in a foreign economic system, of which the foreign banks are a part. It is a deliberate choice by them, and if the foreign institution is already weak, or develops weakness later, there does not seem to be much, which the Government of India can do for them.

* Majority Report, paragraph 743.

232. That the danger to depositors, who resort to foreign banks, is real in times of peace, and more so in times of war, cannot be gainsaid.* It is, therefore, an irony of fate, that it should be open to any one to argue, that they are seeking not danger, but safety, in putting their funds with a foreign institution, and that their reliance on the Indian institution is less than their reliance on foreign institutions. While the safety to individual depositors is a matter of some doubt, their collective action involves a peril to the country, against which provision must be made. The question of safeguarding the interests of the community as a whole is infinitely more important than the convenience of a few individuals. The flight of capital abroad seeking, presumably, greater safety than a country can offer, is promptly checked by all nations, who resent the humiliation and the material injury from such a course. There is more than ordinary parallel in the situation under review in India. But the suggestion, that the prohibition of Indian deposits with foreign banks will render the position of these depositors very unsafe, is one, which is mischievous and unsound.

233. Are Indian banking institutions as a class more unsafe for depositors than foreign banks operating in this country? The Banking Committee certainly had no material before it to be able to answer this question. Is there a belief amongst the Indian public to this effect, which would justify such a generalisation? Again, we had no material to indicate such belief. Such a belief by foreign bankers in India, including Mr. MacDonald, seemed to be founded on an inference from the fact that the rates, at which foreign banks borrow, are lower than the rates, at which Indian banks borrow. Evidence was produced before us to show that in some cases at least deposits of Indian concerns with foreign banks were guided by considerations other than those of interest. They were induced by hopes or better business facili-

* Who can say, whether the British and other foreign banks are not still liable to the dangers? The following will give some idea of the kind of dangers and disasters, from which Indians, depositing their moneys in foreign banks, may yet suffer:—

"The early difficulties of the first overseas banks, in the days of slow and irregular communication, may well have seemed almost insuperable. As a result of this, excessive reliance upon the integrity and business acumen of the colonial staff led naturally, as in the case of the Colonial Bank, the Eastern Exchange banks and most of the others at various stages in their career, either to fraud or to gross mismanagement. It is no doubt the many severe lessons learnt by the Eastern banks in this way, which deter them from relying too much upon the native staff."—("The Imperial Banks," by Baster, page 257.)

"The disastrous failure of the Oriental Bank Corporation in 1884, though an apparently conspicuous exception to this, was in fact not due to defects of organization at all. The bank, the most famous of the Eastern Exchange banks of those days, was operating, at the time of its failure, a far more widely network of branches than any Imperial bank at present,—Bombay, Calcutta, Kandy, Madras, Mauritius, Melbourne, Hiogo (Kobe), Hongkong, Point de Galle, Sanghai, Singapore and Yokohama, with dozens of sub-agencies dependent on these branches and the inevitable Deposit Agency at Edinburgh."—("The Imperial Banks," by Baster, page 258.)

ties, or fears of existing facilities being cut off. Behind such deposits, there was often a desire to secure a good bank reference for the purposes of foreign trade. In all such cases where incidental advantages come into the question, the rate of deposit is secondary. All foreign banks do not offer the same rate, and there is some variation in the rates offered by the same institution for short period deposits and different seasons. There is, besides, in the fixing of the rate not merely the question of supply, but the question of demand, and the consideration whether a bank can get at a certain rate, all the money, which it can profitably use. To the extent to which foreign banks are older, larger, and have accumulated reserves, the merit is not inherent in their being foreign, but lies in an evanescent factor. To what extent it is a question of popular psychology, of habit, and of propaganda, has also to be examined. It must be also seen whether depositors in Indian banks and depositors in foreign banks come from the same class, and to what extent they constitute common group, amongst whom this belief of greater safety in foreign institutions is alleged to prevail.

The matter is so far-reaching that the Indian legislature, when it considers this, would not have to be content merely with carefully ascertaining whether, for Indian depositors, foreign banks are considered more safe, and are in fact more safe,—but what should be done in order to give greater safety to Indian institutions and to increase public confidence in them. The question of safety has been, in my opinion, very much exaggerated. It does not constitute a serious obstacle to the introduction of the restriction, which I have suggested, at the moment.

234. The question of safety of funds of the depositors must be considered with reference to the alternative before them. It would appear very curious from the Indian point of view, that a multiplicity of foreign banks taking deposits has not raised the return to the depositors. The cry of " depositors in danger " would have come more aptly, had these depositors been earning higher rates from foreign banks and had they been prevented from reaching out to these rates. Since that is not so, the question of safety would appear to have been brought in by foreigners as a convenient base to reflect on the soundness of Indian institutions. As an alternative to foreign banks, Mr. MacDonald himself admitted that the Imperial Bank would attract a good share, and it may be granted that a certain amount will find its way into Indian joint-stock banks. There are the provincial co-operative banks, also ready to cater for the depositor. The safety of deposits in this class of banks has not yet been called in question, and the public confidence in them has been very materially increased by the prompt action of Government in regard to the Provincial Co-operative Bank in Burma. As a result of recommendations of this Committee, various institutions for the finance of agriculture, particularly on the land mortgage side, of industry, and of foreign trade, will be called into existence. The depositor will then have his choice. He has also his choice in

Government paper and the debenture securities of municipalities and port trusts, which yield him not less than what he is getting from the foreign banks. For the smaller parties, who deposit with foreign banks, the postal certificates are a very attractive line. The measure prohibiting Indian deposits in foreign banks has been suggested after careful consideration of all the economic factors involved, and it would be a pity, if an attempt was made to create an artificial stampede amongst the depositors and to spread an alarm as to what will happen to these children, when they are released from the apron-strings of the foreign mammas!

235. It was suggested by the representative of " Exchange " banks that a provision restraining Indian deposits in foreign banks would lead to the sale of Government securities at present held by foreign banks. The amount of " Government and other Indian securities and Indian Treasury Bills " indicated in the statement supplied by them was Rs. 26·3 crores on 31st of December 1929. The larger investments in Treasury Bills about this time may be regarded as an abnormal feature arising out of the exchange situation. What the normal investments of foreign banks in Indian Government securities are, is unknown. No published figure for previous years exists at all. Nor is it known whether they held Government securities in any considerable quantities before the war, and whether increased holdings in Government securities are not the result of larger yield on Government loans in recent times. Taking the combined rate, at which these foreign banks take their current and fixed deposits, in the neighbourhood of 3 per cent., and the yield on Government security in the neighbourhood of 5 per cent., it leaves them a handsome profit. There is not only an established market for Government securities, but there is the certainty of receiving finance on such from the Imperial Bank. The holding of Government securities by the foreign bank in this country has, therefore, been purely from business motives and for their own profit. If Indian deposits alone are withdrawn, the amount of Government securities and other Indian securities including treasury bills which they would probably be called upon to sell, would be in the neighbourhood of Rs. 15 crores. The strength, which Government loans derive from the purchases of foreign banks may be important, but it is not so important as to negative an urgent measure of economic reform, preventing Indian savings becoming foreign banking deposits. Besides, the figures are lumped and include Treasury Bills and other Indian securities. The support, which is withdrawn from all these directions at the hands of foreign banks, might to some extent be replaced with the additional support, which all these classes of securities would receive at the hands of Indian banks. In any case the totals of all these classes of securities held by the public with reference to the amount, which the foreign banks are threatening to release, is so inconsiderable that there is no cause for the slightest anxiety in this direction.

It has been already an accepted principle of Government policy in this country, that expansion of banking is necessary and it de-

serves public assistance. Action on this principle was, however, taken only in reference to the Imperial Bank. In another part of the report arguments have been advanced, why a much wider application of this principle is necessary.

The country will have the choice of encouraging banking by direct assistance, or by the regulation, which will prevent the flow of Indian savings in foreign institutions. The direct method of economic assistance by a state has its limitation. The better method would be to create a general improvement in the outlook of all Indian institutions, and leave it to private enterprise to avail itself of this general inducement as far as it can. The assistance would be indirect, but it will be more potent.

236. *Controlling interest.*—It is desirable to create a definite change of outlook in economic matters in India. Foreign banks must be made to realise that opportunities in the field of banking in India are no longer unrestricted. They will be welcomed, they will be protected, they will be given the full benefit of the law, but they will not have preference over Indian institutions as in the past. Indian institutions cannot take the crumbs left at the high feast by foreign banks. It has to be the other way, if India's economic safety is to be secured. Vice versa, the mentality of those, who are concerned with Indian joint stock banks, has also to be altered. More hopefulness has to be instilled in them and their complaint in the past, that they had an uphill task working against the grain, should be met with. The attitude of the Indian public, which, in the matter of banks, has been thoroughly demoralised during a period of fifty years, when they have learnt, rightly or wrongly, to despise their own institutions and to esteem foreign institutions more, can be only altered gradually and the restrictions, including this one, have been intended to guide their attitude. The main reason, however, for prohibiting foreign interests from getting control of Indian banking institutions, is to prevent them vicariously getting advantage of inducements and privileges and preferences, which the state might give to Indian banks. It is similar to the creation of foreign industries behind the tariff wall, but, in the case of banking, much more serious. It is required also to see that the licensing system and the terms introduced therein are not defeated by the simple device of registering an Indian institution. The introduction of this measure has become inevitable after the specific case of the Allahabad Bank, where, by one stroke, foreign interests secured banking control over a vast territory and penetrated into a field, where they did not operate before. It would be impossible to estimate, but no one can deny, that in a million little ways Indian interests must have receded and foreign interests advanced in trade through this acquisition. While the state can watch the overt action of foreign banks, it would find it difficult to meet underground penetration through this means. Not merely in the interests of easier regulation, or in order to restore and sustain the self-respect of Indians in the banking field, but on purely economic grounds the retention of control in Indian hands is desirable. It has to be remembered that foreign control means

restriction of the employment of Indians and also the passing of banking profits earned in India into foreign pockets. An Indian joint stock bank would have Indian shareholders as well as Indian depositors, but, however wise and shrewd these may be in their own individual affairs, they would not always have the capacity, or the opportunity, of knowing what goes on in the field of high finance, and even if they knew that an attempt was being made by foreign interests to acquire control of their institutions, they would not always have the means of warding it off. The Indian law has, therefore, to come to the assistance of the Indian public. No foreign interests would seek control of an Indian institution for the fun of it. They would have a deep-seated business motive in doing so, and the direct opposition, in which Indian interests and foreign interests stand in juxtaposition in many places in the economic life of this country at present, makes it imperative that such prohibition by law should be established.

237. *Rediscount and other facilities.*—The third restriction is one, which restricts the benefit of rediscount from the Reserve Bank to Indian institutions only. The fundamental economic principle in this is the same, *viz.*, that Indian institutions should have a prior and paramount claim to the use of Indian savings. The facilities given by the Reserve Bank will be of two kinds. There will be facilities in normal times and facilities when a banking institution finds itself in difficulties. The question is dealt with at greater detail in the chapter dealing with the Reserve Bank. Briefly, it may be stated, that if Indian deposits are not taken away from foreign banks, the Reserve Bank would find it very difficult to control the foreign banks. For the same reason, the foreign banks cannot become member banks in the Indian Reserve Bank. The foreign banks have their head offices in other money markets. They owe their financial allegiance there, and when there is money to be made in an expanding boom, they will get their additional finance from "Home" and will not be amenable to the precautionary measures, which may be initiated by the Indian Reserve Bank. In the action of the Reserve Bank in controlling expansion of credit, and of contraction of credit, the experience of other countries has been, that foreign banks do not give the same ready submission and co-operation,* which local institutions are ready to give, and have

*"The position of the Imperial banks in this connection is of interest. It may well be asked whether the Reserve Bank of India or the South African Reserve Bank will find their operations hindered by the presence in the local banking system of very large and powerful institutions, whose shareholders, direction and financial support, come from a centre altogether external to the Central bank's own sphere. To escape a Central bank's penal rate for rediscounts, all these banks would go to the London market or the Bank of England, and short of a very thoroughgoing form of co-operation between the Bank of England and its prototypes in the Dominions and India, no local Central bank can stop a practice which is obviously fatal to its assumption of money market control. It seems certain that for very many years yet, the local monetary centres of the Dominions and Colonies will be altogether subjected to London, and that independent monetary policies will be practically impossible."—(Baster "Imperial Banks," page 217.)

no option but to give. Rediscount facilities from the Reserve Bank, if they are at a special rate, constitute a direct encouragement, which should be extended to Indian banks only. Rediscount facilities at penal rates are a form of insurance, which must be available to those, who have contributed directly and indirectly. A bank set up from state funds and holding current Government balances and concentrating within itself the credit of the whole country, cannot put itself at the service of those, who are legally, politically and financially outside the circle of Indian life. To the extent to which the Indian Reserve Bank will undertake obligations towards these foreign institutions, its resources to help Indian institutions would be reduced. These resources are by no means unlimited. It is important that the policy governing their use should be conservative. A menace to Indian banking may arise from the action of foreign banks themselves, as was the case in 1900.† Whether there have been since 1900, runs on Indian banks, bank failures, or general difficulties, in which foreign banks had anything to do, is a matter, which can be cleared up by a future historian.‡ If powerful foreign institutions have created difficulties in such centres as London and Amsterdam, requiring strong action at the hands of the central institution, where the local banking system was by no means weak, what can be expected in India, where banking progress is limited and foreign banks are all powerful? The best thing for India in this respect is to be guided by the experience of more powerful nations and to keep out the foreign banks from rediscount and other facilities.

238. *Restriction on internal banking.*—The economic effects of this restriction have been already indicated. The aim should be that the organization of internal trade and the organization of the finance for the internal trade should be reserved for Indians and for Indian institutions. It is not desirable that the foreigners should penetrate inside to the Indian producer to take in his commodity, or to the Indian consumer to sell the manufactured goods. India will continue to export her surplus and to import materials, that she cannot manufacture locally, but a process, which transfers the control of Indian economic life in foreign hands, should be stopped, at all events in the first instance, at the ports. This is a measure, on which several of my colleagues on the Committee felt as I do. It would be the premier measure required to pull up this country from the economic disorganization, in which it has fallen. It will also give an opportunity to Indian banking institutions to expand that field, in which they are at present fully prepared and competent to expand under the leadership of the Imperial Bank of India. This is also the measure best calculated to help in the creation of that bill market, the absence of which is a feature of Indian banking weakness.

239. *A Warning.*—The measures suggested above are moderate and have full economic justification. But in the early stages of our

†*Vide* Chapter XI.

‡*See* Baster's views in footnote on page 199.

enquiry, ever since the question of prohibiting Indian deposits in foreign banks definitely arose, an attempt has been made to defeat that measure by dubbing it as an extreme measure, by pointing out that the time is not yet ripe for such a measure, and that public opinion is not well informed. There are people in this country, who will argue in a vicious circle. They will say, "Let Indian banks come into existence and grow into strength before taking such measures". The fact that during subsequent months, I found myself in isolation on this issue from my colleagues, makes it necessary to utter a warning. Without this measure, foreign banks will not only continue strong, but will expand, and Indian banks including the Imperial must languish. Not only will the sense of rivalry between Indian and foreign institutions become keener than it is now, but there will be room for bitterness and suspicion. It is not very difficult in a situation of this kind to forecast the state of Indian public opinion. The responsibility for any situation, which may arise from this, will be on those, who advocate leaving things alone. Who can say what effect, steps which Indian opinion is taking in other matters and in anti-foreign demonstrations, will have not only on foreign banks, but on the banking system of the country as a whole? I see a clear duty on the state to give the lead to public opinion on this matter and to guide it. It will be easier to deal with it this way, than to deal with it when a more difficult situation arises. Incidentally, the nature of assistance to Indian banks and the limits of such assistance will have been defined and the foundations laid of a clear and permanent policy.

MEASURES FOR SECURING GROWTH OF INDIAN INSTITUTIONS IN THE FIELD OF FOREIGN EXCHANGE.

240. It will be noticed that the measures suggested by me for dealing with the situation created by the foreign banks filling so large a part of the picture in India, are all in the direction of improving the outlook for Indian banks. They are broadbased on the notion that banking is part of the general economic life of this country, with which it can prosper or expand side by side. It will be noticed that the desire is to retain for Indian institutions that, to which they are legitimately entitled. There should be a clear recognition that India has an economic life separate from the rest of the world, and that Indian banks are part of it. I have pleaded for such recognition on approved lines. The restrictions suggested involve the reservation for Indian institutions of the internal field and larger inducement to Indian banks through exclusive privilege of taking deposits from India. I trust it will be noted that there is no measure of any direct hostility to foreign institutions working in India. I have tried to place the searchlight on their attitude towards Indians in the past, on their methods of work and on their progress, but I have not suggested anything inimical to them as such.

For the legislature in India, it would be of importance to envisage the future relation of foreign and Indian institutions. Are

these relations going to be in a perpetual atmosphere of racial bitterness, or even of such deadly competition as has been witnessed in other fields, such as shipping and insurance? Is there going to be a search for goodwill on both sides, for co-operation and for a common purpose? On the reply to these questions would depend very largely, in what way and to what extent the monopoly of foreign exchange business is to be broken and a share in this business secured for Indian institutions.

241. Some indication of the line of advance came out in our discussions. It was generally felt that foreign banks were powerful and would give a very strong battle to any Indian institution, that attempted to do foreign exchange business. The fight, it was felt, would be unequal, and it was not reasonable, as things are, to expect Indian private enterprise to venture into this field. The European interests deprecated any state-aided competition, and felt that the line of advance lay in India buying out one of the older British institutions and paying it fully for the goodwill, which such an institution had built up. Another opinion pinned its faith in the Imperial Bank and expected that, when the Reserve Bank was started, the Imperial Bank would, without any inducement successfully enter this field. Mr. MacDonald's opinion that the Imperial Bank could do so without any initial difficulty, strengthened this hope.

242. The inconsistency in the attitude of the Imperial Bank must strike everybody. At the time of the amalgamation, in 1920, when Government might have been willing to give them the privilege of exchange business, they did not even try for it but came to a prior understanding with the foreign banks. Subsequently they have complained that they were working under restrictions, which curtailed their profits, and the biggest of such restrictions is that, which keeps them out of the field of foreign exchange. The ways of vested interests are indeed devious. Why the Imperial Bank should ask for any inducement or concession, and the Committee should be persuaded to give them this inducement to go in for this business, passes my understanding. It is further more than curious that the inducement takes the form, not of assistance with a monopoly of Government remittance or any other privilege, which would help them directly in their work of foreign exchange, but the form of sole agency business for the Reserve Bank! The Indian legislature must be on its guard against devices of this kind. The Imperial Bank has an office in London, is already doing foreign exchange business for its constituents, has expressed itself ready to go into that business, as well as anxious. If the Imperial Bank were to represent any of its genuine difficulties in the field of foreign trade created by unequal or unfair competition by foreign banks, such representation would deserve every consideration, but it cannot exploit Indian sentiment that this field should be opened up for its advantage in other directions. The Imperial Bank did not bring before the Committee any concrete proposal. The shareholders and directors of the Imperial Bank have kept the last word with them-

selves and the uncertainty as to the course, which will ultimately appeal to them, overhangs the situation. If things were left merely in this form, there was a fear that an Indian institution would never enter the foreign exchange business. One group in the Committee thereafter came definitely to the conclusion that the best method out of this situation would be the establishment of a state exchange bank, which would enjoy a monopoly of Government remittance work. I am dealing with the prospects and difficulties of such an institution later in this chapter, but would like to state here, that the line adopted is one, which does not assuage the antagonism between Indian and foreign, but which accentuates it. The consequences on British banks, whose business would be principally affected, as such an institution would deal with sterling remittance of Government, need not be detailed. The British banks with their large reserves and with the backing of the London money market, would give a fight, and the patriotism of British merchants, who have the lion's share in the business of foreign trade, may be trusted to support British banks against any Indian institution. So long as the authority of Whitehall is supreme in the counsels of the Government of this country, it would be prudent to expect the vetoing of this measure by the Secretary of State.* The result of a fight would be loss on both sides, and on the Indian side such loss would be borne by the taxpayer. Should the state exchange bank come to grief and be wound up, it would be an occasion not only for terrible humiliation, but it would inflame great passion and create a situation of bitterness far exceeding anything, which exists now, or which may be normally expected hereafter.

243. With regard to banks emanating from countries other than Britain, there was only a question of settling reasonable conditions, under which they can operate. Their operations have not been alarmingly extensive. Nor have there been the same variety and the same volume of complaints against them, as against the British banks. No specific solution was, therefore, sought and no specific solution need be recommended. The main reason for this lies in the fact that business of these banks in India is small in comparison with their business elsewhere. Any reasonable regulations, which may be made in India, even if they restricted the business of these banks would not affect them seriously as a whole.

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*" From the point of view of banking principles we do not hesitate to define the recommendation as unfair and thoroughly unsound. It aims at the establishment of a State Exchange Bank which would exclusively be entrusted with the work connected with foreign remittances of the Government."

I marvel at the deep concern shown by foreigners in the welfare of Indian institution in the following!

" Competition would not be confined to the so-called Exchange Banks. We fear that the detrimental consequences to the Indian joint stock banks would be worse. We take it as a matter of course that the State Bank would be allowed to take deposits and do inland credit business. This would encroach upon the field of all private banks working in India, including the Imperial Bank."—(Foreign " Experts " Report.)

The problem was different with regard to those British banks, whose business in India constituted the major portion of their business. The secrecy, in which their operations are carried on, prevents one from saying which banks they are, and what is the percentage of their Indian profits. But the impression in financial circles, which came to be mentioned in the course of discussions, was that in the case of some of them, as much as 75 and 80 per cent. of the total business was Indian business. While the measures outlined in the previous chapter are not drastic, any more drastic measures, which may be taken, particularly the setting up of a State institution with a monopoly of Government remittance work and other privileges would cripple these banks. Even with a clear realisation of this, it was not possible to induce representatives of British commercial opinion to discuss the matter of honourable partnership. The only inference one can draw from their apathy, was they confidently expected a continuance of 'status quo', and they did not wish to initiate or encourage any programmes, which might hold out great hopes in the Indian mind of a favourable change. This is much to be regretted, because there is danger ahead for all parties concerned, if the situation is merely allowed to drift.

I am firmly convinced that purely business considerations would very soon awaken in the minds of the British banks, whose business is largely Indian, ideas of mutual co-operation on a friendly basis, in place of their present warlike mentality and challenge to India to come and fight it out. Should this development occur, the door is kept open under my scheme, but I would like to indicate very briefly the difficulties and obstacles from either side.

244. For a bank, whose activities are largely Indian, the wisest course would be to come under the Indian registration, to convert the sterling into rupee capital, and to transfer the head office to India. It is true that the majority of shares in such institutions would, under the proposed restrictions, have to be in Indian hands. Their existing shareholders would have to make a business decision. They may as well realise from now that their 'goodwill' is not only a wasting asset, but, in the next few years to come, would be a dead asset. They would have to weigh up, whether it would not only be better for the bank to retain all its business and its connections, but to substantially add to them, by attracting deposits and business of those foreign banks who could not or would not come under the Indian registration and by availing itself of all privileges and inducements, which are going to be reserved for Indian banks. The choice would lie between taking deposits and rediscount facilities in London or in India. They would have then to decide whether splitting up their shares and retaining 40 per cent. on the basis of assured and increased profits, would not be better than their present holdings in enterprises, whose oncoming doom, even a tyro could see.

I do not believe for a moment that a scheme of this kind could not be devised, which would be fair and just to all parties concerned. I had as a matter of fact prepared a scheme dealing with many practical points, which would arise in the course of an operation of this kind, but as I noticed apathy on the part of representatives of British banks to all such notions, I have not discussed it with my colleagues or set it out in detail in this report. The principle, however, still stands. Both for India and England, it would be a better and safer line of advance. It would be a pool of local knowledge, local privileges and local capital, with accumulated experience and technical skill, and it would be a friendly sharing out of profits. It would be a method of joining hands in a form dishonourable to neither and profitable to both. It would be the avoidance of competitive warfare with all its accompaniment of bitterness and inevitable incidents of hostile propaganda for boycott, demonstrations and picketting.

245. Since the initiative for any development on lines indicated in the previous paragraph must come from those, who hold the field at present, so long as it does not come, the next best line of advance may be considered. In this it would appear that the views of the Committee are unanimous, so far as the principle is concerned. One school of thought does not desire anything to be done, until the Reserve Bank is established. After this the Imperial Bank is to take a hand in the game if they will, and the Reserve Bank is to see whether, during a period of five years, they have succeeded in getting a substantial percentage of foreign exchange business. If their progress on these lines is not considered satisfactory, the scheme for an Indian institution is to be launched. Indian joint stock banks and the Indian public are to be given an opportunity for subscribing shares, but the State must take over all unsubscribed capital. The second school of thought in the Committee desire (as far as I could gather from the discussion) that such an institution should be set up within the next three years, whether the Reserve Bank is there or not, and without any reference to the Imperial Bank. They also desire that the capital of this institution should be held by the State. Apart from this difference in the manner of the initiation of the institution and the time, there did not appear to be any difference as to the lines on which the new institution would operate. It seems to be the unanimous feeling that such an institution should receive a monopoly of Government remittance work, ample finance from the Reserve Bank and that it should work in close co-operation and under the direction of the Reserve Bank.

246. It was clearly stated that, though it should start as a State institution, it should cease to be a State institution at the earliest possible moment, when the atmosphere was cleared for the growth of Indian enterprise. Will the atmosphere ever be cleared? Can such an Indian institution take over more than a fraction of the total work at present done by the eighteen foreign institutions?

Will it cripple the power of foreign banks, or reduce their resources? Will it lessen their ability to hurt Indian institutions? Will it increase their goodwill and create a desire on their part to allow Indian institutions to grow, and will it reverse the ordinary principles, which alone British banks in India have understood with reference to Indian banks, *viz.*, the principle of warfare in the business field?

The other difficulties may be considered. There is more than ordinary danger of the scheme for this institution being put on the shelf on the plea that the State cannot spare the money for this object. Even when the institution is launched, the new enterprise will find itself in difficulties, if the Reserve Bank Board are unfavourable to it. Will the Board of the Reserve Bank be such, that they would support this institution, which would be called into existence, with the deliberate idea that India should not be dependent on foreign banks for its foreign exchange business? Will the management of such a bank be in business hands, or will it copy the model of existing commercial departments of Government, like railways, post offices, military workshops, which have managed to keep businessmen miles out? Will the taxpayer agree to bear the loss, which such an institution must make, because the older foreign institutions must make a fight for it? Will such an institution confine its activities to the sterling market, or will it invade the Dollar exchange, the Yen exchange and the Continental exchange? In that event it will have to have funds and connections, which will take time, but the charges for the establishment would have to be borne from the start. In order to sustain an institution of this kind in the sort of contest, which it will have to meet, many privileges for it will be wanted, including that of the monopoly of Government remittance.* Will the legislature pass the scheme as a whole, or will they curtail essential parts including this monopoly? On the reply to some of these questions would depend the success of such an institution.

247. Will the measure taken lead to foreign institutions amalgamating amongst themselves and eliminating duplication, thus effectively increasing their power of hitting Indian banks or defending themselves against the new privileged institution? The adoption of such a measure without the restriction against Indian deposits going into foreign banks, is doomed to failure, as it leaves in the hands of the foreign banks two weapons, *viz.*, the resources, the working capital and all their Indian connections and the means of earning profits from internal banking. If their profits on exchange business are as low as was indicated and if they are relying for their earnings largely on what they are making in the

* Such monopoly will not be much use, if it is hedged round with a clause, that no profit will be made on remittances purchased in the open market in its capacity as agent. So long as the institution is a Government institution, this is an unimportant question, and the taxpayer will have to find the money for any losses incurred. A concession must be real, if it is to enable the institution to face the ring of foreign banks.

interior,† a share of the foreign exchange business taken from them is not going to reduce the menace, which they offer to Indian institutions at present.

I have not before me the whole scheme as framed by the group, which has sponsored this project. While the success of the institution is conditional on many factors, some of which have been stated here, it will mean two things: to the existing eighteen banks engaged in foreign exchange business, will be added one more, which will materially affect the profits earned in India by the foreign banks in proportion to their Indian business. Even if it should take more than the average share of the total, no material exists in hand at the moment to indicate whether such a share could go beyond 10 or 15 per cent. of the total. If any one expects it to exceed 15 per cent., it would be on the basis that not only Indian business, which is now going to foreign banks, will be wholly transferred to it, but that such a new institution will be able to attract the non-Indian custom. Will it offer facilities in India and outside comparable to the facilities, which foreign banks are at present offering? It would seem, therefore, that only a fraction of the total business is thus to be secured by a measure, which involves the use of two very powerful weapons, *viz.*, State capital, which is in effect the same as the taxpayer being made responsible for the loss, and monopoly of remittance business. Opposition from the foreign banks may be expected on both these grounds. So far as the first is concerned, the British banks have, it may be said, built their fortress not wisely, but too well. They have so impeded the attempts of Indian institutions to enter into this business, when such an attempt was made on a moderate basis, that they have steeled Indian opinion in this direction and called forth the use of extreme measures. It is on the basis that a field, which has become dangerous for private enterprise and for private capital, has got to be opened out, and the public issues involved are of sufficient importance to bring the taxpayer in. I should like very much to anticipate the arguments of the foreign banks against the concentration in one hand of the remittance business, on the plea that it would be a monopoly. These banks have enjoyed an effective monopoly in the past and have successfully kept out of it the Presidency banks. They have bent for their purposes both the Government of India and the Secretary of State, and nearly got, in the first Reserve Bank Bill, a Reserve Bank, which would also have been not their master, but their servant. It would not, therefore, lie in the mouth of institutions, which have enjoyed

† "I attribute this reduction in profits chiefly to the suicidal competition that continues between Exchange Banks in India. I referred to this competition last year and said that, after taking into account brokerage and heavy expenses, the margin of profits on our exchange operations was disappearing; and I regret to say that, as the result of the past year, I can see no improvement in the position which is such that, but for our local business, we would lose very little by declining to do any exchange business." —(Chairman of the Mercantile Bank of India, Annual General Meeting, 1929.)

such monopoly in the past, to oppose on this ground a measure, which the Indian legislature might consider necessary.

248. The other consequence would be that the entry of Indian enterprise in this field, which is already a matter of very serious difficulty, would be beset with even greater obstacles. This aspect of the question has impressed me very greatly and I would, therefore, venture to suggest, that in any measure, which may be ultimately adopted, the ways and means and the period of time, by which the change-over would take place to Indian private enterprise, should be definitely provided. My colleagues, who put forward this measure, did so, on the basis that it is not normal and proper for the State to engage in an activity of this kind. They had also agreed that after five or ten years, or at a suitable opportunity, such an institution should cease to be a State institution. I would like the issue to be taken a little further and suggest that at the earliest opportunity the monopoly, which may be given to such an institution, should be broken up in favour of, and should be shared by, Indian institutions coming forward and desiring to engage in this work.

249. The need of a separate institution to deal with exchange business also belonging to the State, as would the Reserve Bank, and working under the aegis of the Reserve Bank, has to be examined. The Reserve Bank will have powers to enter the exchange market not merely at gold points, but at any point. It would so enter normally even according to the foreign ' experts '. In order to build up its own stock of foreign currencies, it would have to enter the market and keep in the market continuously in order to better control it and in order to give less shock to it by its sudden entry.

The question of profits does not enter into the question as both would be Government-owned. The only additional function, which the State exchange bank would have over the Reserve Bank, would be that it will compete with other exchange banks, not merely for bills and remittances, but for deposits, not merely in external trade, but in internal trade. The central banks in some other countries do not so compete, because those countries have got separate banks to do this kind of business. India has got no banks of her own in this field and if the Reserve Bank were to compete, the heavens would not fall. The competition by another limb of the State and the competition of the Reserve Bank would have in practice the same effect on those, who will have to meet that competition. There would, however, be a duplication of machinery and it must be carefully considered, whether it would not be feasible to give the Reserve Bank the additional powers and to work the exchange business, not merely in the maintenance of the gold points, but otherwise, through a department of the Reserve Bank.

Having regard to all this, I am convinced that it is desirable to work the foreign exchange business through a department of the Reserve Bank, whose accounts of this business will be kept separate, to be amalgamated with the final accounts at the end of the year, and whose reserves in this direction would be built up separately to meet any losses and contingencies arising in its operations.

250. I make this suggestion with an eye to the future. I think private enterprise should not be shut out from this line. As and when an Indian institution is ready, it should be allowed to emerge under conditions, in which it will prosper. It should be allowed to share in this business to the extent, to which it could share and when a sufficient number of institutions are on the scene in this manner, the Reserve Bank should approximate to the model in other countries, where the central bank concentrates on its own functions, leaving the task of the finance of foreign trade in the hands of specialised institutions. There must be this outlook, that ultimately this has to be done not by State agency, but by private agency. Without that outlook, I see the result that, whereas a State institution, being the nineteenth bank in the field, may succeed in doing business of greater volume than the most prosperous foreign bank, such share, which may be put at anything from 10 to 15 per cent. of the total on a most optimistic basis, will only reduce the quota going into any foreign institution. It will, however, make the competition in the field much more intense than it is now through an inevitable rate war and render the entry of an Indian institution absolutely impossible. If this bank is, therefore, established as a separate institution, some indication should be given as to how and when Indian institutions willing to enter the field are to be assisted, how they are to be secured against the competition of the foreigners and when the conditions would be ripe for Indian private enterprise to get in vis-a-vis powerful foreign rivals and this State enterprise.

251. I have urged an examination of this question on these lines, because, the line of advance, which I conceive safest for India, is the creation of more favourable conditions for Indian private enterprise. The increase of the scope for Indian enterprise is to be secured by eliminating everything abnormal in the situation. The provision enabling the Reserve Bank to act as their agents abroad, which I have recommended, will to some extent supply the deficiency now felt. The improvement of general health of Indian banks in the internal field will react greatly on their desire to engage in this field. They have evinced such a desire in the past, but have been deterred by the solid phalanx and the ring of foreign interests, which they were called upon to break through. As soon as the position is improved, I have no doubt that Indian enterprise will come on the scene. The suggestion, that Indians have no enterprise and would not venture to come on the scene, is a malicious libel. It gives more than ordinary scope for pride and jubilation, that in spite of so many deterrent factors not only in banking, but in many other fields, Indians have not given up hope and have shown courage as well as capacity. They were not unaware of the unfortunate experiences of their predecessors, but they were undaunted. Granted reasonable conditions and the creation of opportunities, Indian enterprise is sure to raise its head, even in this charmed circle of the business of the foreign exchange.

CHAPTER XVI.

THE IMPERIAL BANK OF INDIA.

252. The Imperial Bank deserves a chapter by itself. Its position is exceptional. In India it has the biggest share capital and reserves.* It has the largest number of branches. It is an all-India bank in the true sense of the word. It has prestige and dignity as Government bankers. It has the use of Government funds and special privileges in connection with remittances. It plays an important part in the matter of the administration of the public debt generally, and at the time of the flotation of new loans, as well as treasury bills. It can borrow from the currency reserve under certain conditions. It keeps the balances of other banks and it is the institution, to which other banks look for assistance. It has important relations with indigenous bankers of the Shroff, Chetti, Multani, Marwari and other kind. Sir Basil Blackett described it as " a hybrid institution trying painfully to combine incompatible functions ".†

I am of opinion, that the question of the Imperial Bank deserves close attention, because it is a great interest and it is a vested interest. As a vested interest, it is not viewed with favour. On many occasions, either after or before amalgamation, it could have helped other institutions at a slight cost, or inconvenience to itself. But it has acted in many directions in a truly imperial fashion. Not only in its relation to joint stock banks and co-operative banks, were complaints placed before us, but in other directions also in the past, discrimination against Indian interests by the Imperial Bank has been suspected. It was to refute such complaints, that the Managing Governor of the Imperial Bank gave before the Royal Commission on Currency in 1925, figures of the advances to Indian firms and to European firms. The attack on the Imperial Bank as discriminating against Indians, did not, however, abate. I find it stated in the following terms in the separate minute appended to the External Capital Committee's report by Mr. T. C. Goswami:—

" I should like to express the common belief,—for which I know there is a good foundation in actual facts,—that racial and political discrimination is made in the matter of credit, and that Indians usually do not receive in matters of credit the treatment that their assets entitle them to, while, on the other hand, British businessmen have frequently been allowed larger credit than what on ordinary business principles they ought to have got. This is a matter for inquiry."‡

253. Who is to make this enquiry? The Central Banking Committee could not. The non-Indian majority of Imperial Bank shareholders would not. Can the Indian public expect such an enquiry

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	Rs.
* Capital	5,62,50,000
Reserve	5,40,00,000

† Address before Delhi University, 1926.

‡ Page 24, External Capital Committee's Report.

from four Indian nominees of Government, some of whom are septuagenarians, on the Central Board? Whatever the method and work of the Imperial Bank is, it must continue undisturbed, since there is no provision in law to secure an effective Indian majority in its control.

In his evidence before the Central Banking Enquiry Committee, the Managing Governor took pains to point out the number of industries, to which assistance has been given, and to refute the suggestion, that industries in India did not receive assistance at the hands of the Imperial Bank. Specific complaints came to us in connection with the loans given out by the Imperial Bank to tea gardens, such loans being confined to four English brokers, through whom alone the Imperial Bank acted. The fact that the superior staff of the Imperial Bank is wholly English, may be at the root of this feeling widely held, and this feeling holds an important place in Indian public opinion. The fact of the existence of Indians in the Central and Provincial Boards does not appear to have made serious impression on the adverse feeling in Indian circles.

254. In order to view in their correct perspective, facts behind such public opinion, it is necessary to consider the foreign holding in the Imperial Bank. Before the amalgamation it was possible to ascertain whether the Indian shareholders predominated, or a large part of the shares was in foreign hands.

It has not been possible since the amalgamation but casual guess in financial circles put foreign holdings at 60 to 75 per cent. at different times. In reply to a specific query on the subject by me, the Managing Governor of the Imperial Bank gave us the following figures:—

Share Capital of the Imperial Bank of India on 17th May 1930.

	Rs.
Indian	2,78,08,250
Non-Indian	2,84,41,750
TOTAL	5,62,50,000

While there have been rather wide fluctuations in the value of the Imperial Bank shares since, all sorts of stories are going about, one set indicating that Indians have sold out, and the other set indicating that the Europeans were withdrawing their capital from India. What the proportion of the holding will be at the present date, it would be difficult to say. How much of the holding in Indian hands is trust holding, and not of their true ownership, is again a question, which cannot be answered. It is a very important question of policy, whether the premier banking institution in the country should have a preponderance of foreign shareholders. It is doubtful whether the principle already accepted by the legislature and the Government of this country, that, where an institution receives financial help, directly or indirectly, from the state, it should have a preponderance of Indian Directors, is

altogether realised in the case of the Imperial Bank, where the controlling interest is certainly foreign, and I consider that, without any delay, the position should be examined and the necessary alteration brought about, either by negotiations between the Government and the Imperial Bank, or by a change in law, by which the controlling interest shall become Indian. It is only after this is done, that Indian public opinion will be persuaded to credit the *bonâ fides* of the Imperial Bank acting in the interests of Indian agriculturists, Indian merchants, and Indian industrialists, wherever such interests conflict with foreign interests. The existence of such confidence in the Imperial Bank is very necessary, if the Bank is to continue to perform important functions, which it is performing, some of which it may be still entrusted with, even after the establishment of the Reserve Bank. It is not, therefore, on grounds of sentiment and prejudice, but on strictly practical banking grounds, that I recommend this to be done. It would undoubtedly come within the general regulation against controlling interests in any banking institution in India being retained by foreigners, but, if there is going to be any delay in the adoption of that general regulation and the passing of the necessary legislation leading thereto, there need be no delay with regard to the application of the principle in the Imperial Bank, where its need is imperative.

255. The following statistical information is available with regard to the Imperial Bank:—

I.—*Capital, Reserve, Deposits and Cash Balances of the Imperial Bank of India.*

(In lakhs of rupees.)

31st December.	Capital.	Reserve and Rest.	Government or Public Deposits.	Private Deposits.	Proportion per cent. of Government Deposits (column 3) to		Cash Balances.
					Total Capital and Deposits (columns 1 to 4).	Private Deposits (column 4).	
	1	2	3	4	5	6	7
	Rs.	Rs.	Rs.	Rs.	Per cent.	Per cent.	Rs.
1922 . . .	5,62	4,33	14,16	57,00	17·4	24·8	15,07
1923 . . .	5,62	4,55	8,57	74,19	9·2	11·5	15,01
1924 . . .	5,62	4,80	7,50	76,71	7·9	9·9	15,60
1925 . . .	5,62	4,93	5,46	77,83	5·8	7·0	17,47
1926 . . .	5,62	5,09	6,45	73,90	7·1	8·7	20,90
1927 . . .	5,62	5,24	7,20	72,07	8·0	10·0	10,89
1928 . . .	5,62	5,39	7,95	71,30	8·9	11·1	10,57

II.—*Figures of public and other deposits, loans, etc., of the Imperial Bank of India in the last week of each half year from 1921.*

(In lakhs of rupees.)

	Public Deposits.	General Deposits.	Loan from Paper Currency.	Banks' Investments.	Loans.	Cash Credits.	Bills.	Cash.	Percentage.	Bank rate per cent.
1921.										
March . . .	5,31	72,19	...	13,17	16,38	22,34	9,62	22,06	25·32	6
September . .	8,50	83,15	...	15,77	28,80	23,18	8,03	29,71	31·70	5
1922.										
March . . .	20,08	57,08	2,00	10,32	18,11	29,14	9,02	20,48	25·47	8
September . .	13,36	72,19	...	19,04	17,94	26,72	4,22	36,78	41·34	4
1923.										
March . . .	20,53	53,62	...	9,49	18,79	31,30	8,86	14,44	18·98	8
September . .	15,69	78,89	...	12,70	13,15	30,55	4,71	39,40	41·18	4
1924.										
March . . .	26,02	71,21	12,00	11,82	27,71	43,07	5,39	13,20	16·49	9
September . .	24,23	73,58	...	16,78	16,13	37,67	15,78	28,39	28·61	5
1925.										
March . . .	26,14	69,52	8,00	10,02	24,99	24,99	8,67	19,34	18·44	7
September . .	9,07	78,90	...	16,19	13,97	28,15	15,59	31,98	35·95	5
1926.										
March . . .	19,39	73,77	...	15,97	17,87	35,82	6,08	25,23	26·85	6
September . .	19,20	81,48	...	20,52	11,84	21,09	4,95	50,39	49·63	4
1927.										
March . . .	22,35	67,30	3,00	20,54	18,49	34,12	7,69	18,80	30·34	7
September . .	12,85	71,61	...	21,53	10,92	23,72	5,98	30,37	35·64	5
1928.										
March . . .	4,91	73,08	7,00	21,72	12,25	31,50	15,91	11,67	13 60	7
September . .	6,91	71,96	...	23,19	10,84	25,30	4,30	23,47	29·46	5
1929.										
March . . .	5,92	71,70	2,00	21,89	10,94	32,43	11,64	10,84	13·46	8
September . .	20,04	69,64	...	32,77	8,50	22,99	3,48	30,82	33·84	5
1930.										
March . . .	20,11	70,01	...	30,19	10,05	31,74	7,52	10,18	21·00	7
September . .	13,18	75,01	...	23,85	17,45	28,66	2,41	25,61	28·32	5
1931.										
March . . .	11,92	70,43	...	29,74	12,11	29,33	5,32	13,33	15·90	7

In the growth of many of the banking institutions, that now hold an important place in the world, the foundation of note issue may be traced. In India it is traceable only in the case of the three Presidency Banks, which ultimately became the Imperial Bank. It would be nearly a century, during which the Imperial Bank, or the units which now compose it, have enjoyed a privileged position. From 1839 to 1861 it had the right of note issue. Thereafter it had, in addition to the prestige attached to it as Government bankers, access to state funds. Government agreed to keep certain minimum balances with it free of interest, which could not be withdrawn. Subsequent reforms in this direction enabled it not only to have, since its amalgamation, the whole of the Government balances, but also, by improvement in the system of currency chest, to get in its hands Government money much quicker, as it came in.

256. These reforms, which placed unused state funds in the hands of a banking institution and, through it, sought to make them available to the trade, were undoubtedly in the right direction, but the other side of the shield has to be examined from the point of view of the Imperial Bank. This system placed this institution practically in a position, where on occasions the usual banking necessity and obligation of maintaining cash was either eliminated, or considerably reduced. The following statement of public deposits, loans from currency reserve, and the cash balances of the Imperial Bank throws some light on the subject, though since the figures are confined to certain dates only in the year, they have to be interpreted with some caution.

(In lakhs of rupees.)

	Government deposits.	Loans from Paper Currency.	Cash.†
	Rs.	Rs.	Rs.
1921—			
31st March . . .	5,31	...	22,06
30th September . .	8,50	...	29,71
31st December . .	6,80	*	13,60
1922—			
31st March . . .	20,08	2,00	25,47
30th September . .	13,36	...	41,34
31st December . . .	14,16	*	15,07
1923—			
31st March . . .	20,53	...	14,44
30th September . .	15,69	...	39,40
31st December . . .	8,57	*	15,01
1924—			
31st March . . .	26,02	12,00	13,20
30th September . .	24,23	...	28,30
31st December . . .	7,50	*	15,60

* Figures not available.

† Including cash out of banks' deposits shown in para. 255.

(In lakhs of rupees.)

	Government deposits.	Loans from Paper Currency.	Cash.†
	Rs.	Rs.	Rs.
1925—			
31st March . . .	26,14	8,00	19,34
30th September . .	9,07	...	31,98
31st December . . .	5,46	*	17,47
1926—			
31st March . . .	10,39	...	25,23
30th September . .	19,20	...	30,37
31st December . . .	6,45	*	20,90
1927—			
31st March . . .	22,35	2,00	18,80
30th September . .	12,85	...	30,37
31st December . . .	7,20	*	10,88
1928—			
31st March . . .	4,91	7	11,67
30th September . .	6,91	...	23,47
31st December . . .	...	*	...
1929—			
31st March . . .	5,92	2	10,84
30th September . .	20,04	...	30,82
31st December . . .	...	*	...
1930—			
31st March . . .	20,11	...	19,18
30th September . .	13,18	...	25,61
31st December . . .	...	*	...
1931—			
31st March . . .	11,92	...	13,33

The cash position of the Imperial Bank has to be watched, because this is the cash, to which everybody in India looks up for relief, and it is the barometer, which explains and justifies changes in the bank rate, except where they are made for currency reasons. The position may be compared as follows:—

	Cash.	Percentage of cash to Liability.
	Crores.	
March 1926	25·23	26·85
March 1931	13·33	15·9

While the cash position of the Imperial Bank deteriorated, that in the case of the Bank of England during the same period improved from £23,580,467 to £53,927,188 and from 19·7 per cent. to 49·6 per cent.

* Figures not available.

† Including cash out of banks' deposits shown in para. 255.

257. The table given in paragraph 255 indicates the deposits of the Imperial Bank. The figure of private deposits must include considerable sums of quasi-public deposits, such as, from company-managed railways, Indian States, municipalities, port trusts, and other public authorities, a class of deposits, in the receipt of which, it is possible, the Imperial Bank does not have to meet the competition of other banks. The total figure of these private deposits since 1923 has remained the same, or shown a slight diminution in spite of the increase of many branches which should have led to increase of deposits. There is a factor, which will have to be examined in connection with these particulars, *i.e.*, whether this figure includes also deposits in London, and whether the figure of London deposits is now higher than it was in 1923.*

To the extent, to which there is an excess of deposits in London in 1931† over such deposits in 1923, the Indian deposits of the Imperial Bank may be said to have gone down. I am sorry we were not able, by definite figures, to ascertain this fact. I regard this fact as having a very important bearing on this subject, because it would be very significant, in comparison with the deposit figures of foreign banks. Has it something to do with the progressive reduction in the deposit rates established by the Imperial Bank? Or is it a definite setback to the premier banking institution in India on account of foreign institutions having hit it. The proportion of cash and reserves to deposits in the Imperial Bank is much higher than that in several Indian joint stock banks and the foreign banks operating in India, and in the large banks in the United Kingdom. This may be due to the fact that the Imperial Bank gives no interest on current account, and its rates for fixed deposit account are lower than those offered by other banks in India, either foreign or Indian. The pressure of foreign

* *Imperial Bank of India.*

(Resources in London.)

(000's omitted)

——	1921.	1922.	1923.	1924.	1925.	1926.
	£	£	£	£	£	£
London Deposits . .	35	168	738	1,243	1,016	857
London Advances . .	343	738	434	929	1,098	861
Cash and Bank Balances in London.	45	23	343	369	47	49
Total Assets (Rs.) .	82,83,53	82,19,00	1,01,22,01	96,93,90	94,18,60	91,31,64

("The Imperial Banks," by A. S. J. Baster, page 218.)

† In recent weekly statements London deposits have appeared at much higher figure such as £6,000,000 and £4,000,000.

banks may, however, compel the Imperial Bank before long to alter its policy with regard to interest on current account and to alter its rates with regard to fixed deposits, if it is established that the total volume of deposits in the Imperial Bank is declining.

The next point, which arises from the statistical data, and which deserves attention, is as follows:—

	March 1921.	March 1931.
Bank's investments	13·17	29·74
Loans	16·38	12·11
Cash Credits	22·34	29·33
Bills	9·62	5·32

The increase of the Bank's investments, which can be only in authorised securities, could not have helped trade and industry, and the bulk of it must have gone in Government finance in various forms. The reduced quantity of bills and the increased volume of cash credit is an illustration of the tendency deplored by our Committee as a whole, and for the counteraction of which, various measures have been suggested. We had not enough material before us to enable us to examine the complaint, that the Imperial Bank had reduced loans to industry, and it is difficult to say whether the reduction in the figure of loans is wholly accounted for by the suggestion, that the reduction in the level of prices reduces the amount of loans, or whether it lends any justification to the abovementioned complaint. The fact, that the loan figure comprises loans to banks as well as to trade and industry, makes it difficult to draw inferences from it against the complaint.

258. The following are the figures of the annual net earnings of the Imperial Bank since the amalgamation:—

	Rs.
1921	1,20,32,449
1922	1,16,40,805
1923	1,25,14,507
1924	1,27,87,056
1925	1,09,76,682
1927	1,10,96,961
1928	1,11,98,657
1929	1,05,58,996
1930	1,01,72,818

The following comment on this position from a leading stock exchange firm throws some light on the position:—

"It will be seen that they show an almost continuous decline, the earnings for 1930 being the lowest in the short history of the Bank. Although the decline in trade and in commodity prices must be taken into consideration, the reduction in the net earning power cannot be considered as other than unsatisfactory. The Bank is in the enviable position of having to pay no interest on the bulk of its deposits. If this was not so, we are afraid that shareholders would have to go dividendless. It is very fortunate also, for the shareholders, that the decline in trade and in commodity values has

not brought down the level of money rates in this country,—as it has in most, if not all, others.

" We are afraid that the Bank's last annual report would have made very poor reading, had the Bank Rate averaged less than 5 per cent. throughout the year as it would have averaged, had the exigencies of the exchange position not necessitated artificially tight money conditions.

" We believe that in the early years of the Bank's existence the cost of opening new branches was debited to profit and loss account. This expense has now ceased but there is no corresponding improvement in the disclosed profits and no apparent benefit is obtained from the working of the two hundred branches throughout the country."*

259. The proportion of current to fixed deposits in the Imperial Bank is not known, but, it must obviously be considerable.† This is an advantage, which the Imperial Bank has, which joint stock banks do not enjoy, though it is not known to what extent it is counterbalanced by the restriction, under which the former has to work.‡ I regret, we had no means of finding out, whether the Indian banking system as a whole, including the Imperial Bank, was receiving a setback, or of analysing the causes of this and ascertaining whether this setback was temporary, or was going to be permanent. In the past the foreign banks admitted competition with the Imperial Bank, and the Imperial Bank complained of such competition. If this was so, the commercial prospects of the Imperial Bank could not have improved by the entry of a larger number of banks, or by the increase of their operations at ports and interior branches. The Imperial Bank is regarded as being amongst the well-managed banking institutions in India, and, other things being equal, if there are factors affecting the Imperial Bank's earning capacity, the earning capacity of Indian joint stock banks generally must be also seriously affected by them.

The constitution of the Imperial Bank of India.—From the point of view of the Indian public, the constitution provided by the Imperial Bank of India Act is very defective. It cannot be said to have secured public confidence. The working of its constitution, which gave power to Government to nominate several

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*Report of Messrs. Forbes and Lund, dated 24th February 1931.

†" Since the inauguration of the Imperial Bank in January 1921 its savings bank deposits have increased from 4,12 lakhs to a figure of 10,79 lakhs on the 31st March 1925."—(Sir Basil Blackett's address before the Delhi University, 1925.) Later figure was not available.

‡ *Chairman.*—Could you amplify that a little by telling us which of these constitutes a real practical limitation upon what would be the ordinary current business of an unrestricted bank and to what extent it imposes a real practical limitation of such business?

Mr. Norman Murray (Joint Managing Governor of Imperial Bank).—To begin with, the restriction on exchange business debars us from what is a very profitable business. Outside that the restrictions do not put us to any very great difficulty.

(Question No. 9549, Royal Commission on Currency, 1925-26.)

members of the Central Board, has not eliminated the complaint regarding the discrimination used by the Imperial Bank against Indian businessmen. It has not satisfied public opinion, that even when efforts are being made to Indianise the superior staff of the Imperial Bank, it is at a rate, which is possible, and which would have been adopted, if the Indian element in the Central Board had been either adequate, or had shared public sentiment in this direction. No useful purpose will be served by considering its constitution, or the reforms required to bring it in line with the needs of the country, as the Imperial Bank Act must be repealed as soon as the Reserve Bank is established, and the Imperial Bank would then have to operate as a joint stock bank.

260. It was necessary to refer to the unsatisfactory character of the constitution, because, Sir Osborne Smith, in his letter to the Committee, dated 24th February 1931, developed the idea of getting over the difficulties with regard to the constitution of the Reserve Bank by utilising the Imperial Bank, the trading portion of the activity being handed over to reconstituted Presidency Banks. According to him, " an added advantage in constituting the Imperial Bank, the Reserve Institution is that a ready made commercial directorate comprising the foremost brains, both Indian and European, and subject to shareholders' sanction would be available, thus removing the contentious rock on which the previous Bill crashed. The Board would be completed by Government's nominations to represent sectional interests ". The Board, as it is, has not pleased Indian opinion, even in the management of the Imperial Bank. The presence of non-Indians would be opposed to the spirit and practice of the law in connection with central institutions in most countries.

The question of the constitution of the Imperial Bank arises, not merely in connection with larger facilities to Indian businessmen, so long as the Imperial Bank continues to function as it is. It is of importance with regard to the future operations of the Imperial Bank, as to the directions, in which they will work, but the main question is the topic of Indianisation of the staff. European recruitment was continued everywhere, since the inception of the Imperial Bank, though, we were told, that for the Bombay circle during the last year, no new European appointment was made. The idea of an Indian Managing Governor, which I raised in the course of the examination of Mr. MacDonald, was not appreciated. It was considered to be a matter entirely for the Bank, *i.e.*, for the shareholders and directors to decide. The idea was regarded with the same amazement, as the idea of an Indian Commander-in-Chief, and it was evident that only an Indian, who rose from the ranks, could be eligible in due course for such a position. My curiosity as to who the seniormost Indian in the Bank's employment now was, and how many years it would take for him to be even considered for the first place, was not satisfied, and no reply on this point was vouchsafed.

261. *Branch extension.*—I consider the method of extension of banking by encouraging the establishment of branches by the Imperial Bank as most costly. It would have been criticised much more than it has been, had not the contract with regard to the obligation of opening one hundred branches, been part of the general contract, and thus mixed up with considerations other than those, which were applicable to branch extensions. The Imperial Bank had difficulties, or showed that it had difficulties, in carrying out this programme in the beginning. One still hears that if the Imperial Bank is not given any privileges, they will withdraw some of these branches.*

Which, and how many branches, are not paying at present, was not disclosed in our enquiry. The special contract in this direction, which was being rushed at the time of the introduction of the Reserve Bank bill in 1927, was not advantageous to the tax-payer, or to other joint stock banks, or to the public. It need not be discussed, as the occasion for special terms and special concessions does not now arise, the period of agreement with the Imperial Bank having come to an end. Before new terms are given to the Imperial Bank with regard to branch extension, it would be necessary to examine statistically and financially the amount of sacrifice, if any, which it has been called upon to make in setting up a branch, the suitability of the standard of expenditure, which it has adopted for branches, and many other like questions. The Committee was agreed generally, that the provision for branch extension should be left to the Reserve Bank, and the benefit of such provision should be available, not only to the Imperial Bank, but to other banks.

It is claimed, that the Imperial Bank has brought down remittance charge, which was prevalent in the interior. It is also claimed, that the establishment of their branches in several centres has reduced the charge, which the business community have to pay on loans.† This is the justification given against the complaints of the Indian joint stock banks against such competition, but it is important to examine how far, on account of restrictions in the class of business, which they were able to transact, the Imperial

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* "In the absence of some compensation, the Imperial Bank would obviously close down the branches which would not be worked at a profit and the compensation should reasonably be something more than would cover the net loss on the working of those branches."

"I have no doubt that it would be bad for banking in India to let the Imperial Bank shut down all its branches on account of any unfair or cheesparing policy adopted by the Government."—("Indian Finance," Special Banking Enquiry Number, in the article on the Imperial Bank of India.)

† I find that it was stated in evidence before the Currency Commission that when the Imperial Bank came and opened branches at places, where the Allahabad Bank was working, the Imperial Bank immediately formed a contract through its brokers for the purchase of a large quantity of Hundis payable on demand at rates which could not pay the other banks.

Bank act as a conduit for drawing away funds from the district, where they take deposits. The withdrawal of such funds cannot but have a tendency to increase prevailing rates. The material placed before us does not permit a close examination on this point, but the feeling that the Imperial Bank in particular, and possibly some of the joint stock banks, are using their branches more for the purpose of collecting deposits and withdrawing them, than for the purpose of financing the needs of the district, from which deposits emanate, was reflected in more than one Provincial Committees' reports.‡

262. *The relation of the Imperial Bank with foreign banks.*— There is much historical evidence that the Presidency Banks and the ' Exchange ' Banks had occasions for mutual jealousy and rivalry. For so many years, the foreign banks were intolerant of the Presidency Banks, who had privileges in India. It was, therefore, usual in official and other despatches of those times to say, that the Presidency Banks' sphere was internal trade, and foreign trade was the sphere of the ' Exchange ' Banks. The ' Exchange ' Banks did their level best to keep the Presidency Banks out of the field of the foreign trade. The Presidency Banks were unable to increase their privileges, and get restrictions on their exchange business removed, in spite of the fact that the Government of India backed them, because of the influence, which British banks had, direct with the authorities at Whitehall. This was notwithstanding the complaint of the Presidency Banks, that the ' Exchange ' Banks engaged in internal business, a complaint, that was not denied and was definitely admitted before several commissions of enquiry.

The predecessors of the Imperial Bank, having secured an outstanding and unassailable position in the Indian banking system, were very watchful of any developments, which might affect them. It is to their credit that they have never missed the chance of adjusting themselves to a new situation, no matter what it was, and of safeguarding their own interests. This will be seen from the

‡ The Bombay Committee have also suggested that banks collecting deposits in the mufassal should also keep in view the internal trade needs of the locality. For this purpose, periodical statistics regarding the total deposits received and the total advances made by different banks in different areas should be collected and published by the Central Banking Institution. —(Bom. para. 164.)

In the absence of statistical information, it is not possible to say with any reasonable certainty how much of the amount collected by way of deposits is invested by these banks locally; but the general trend of evidence suggests that in most cases the local investments are much less than deposits. They shun the agriculturist even more than the indigenous banker. None of them finances local industries."—(Report of Central Areas Committee, page 371.)

Only a small portion of the amount collected as deposits by the Imperial Bank in these Areas is actually utilised by it for the purpose of financing local trade and industry; and as a result of opening branches of the Imperial Bank there is a marked tendency to divert a very large portion of local funds from local trade and industry to other provinces.—(Report of Central Areas Committee, page 374.)

following extracts from a circular sent out to the shareholders of the Bank of Bombay on the 1st December 1919.*

" It has been borne upon your Directorate that there is every probability that powerful banking interests in England, represented by the large London Joint Stock Banks, may at an early date obtain control of certain Indian banking interests, more particularly those of certain Indian Exchange Banks, and to combat this and to retain their prominent position it becomes absolutely necessary that the three Presidency Banks should consolidate by amalgamation . . . . . Your Directors are therefore, of opinion that failure to take advantage of the present opportunity to meet the undoubted public desire, by amalgamating the three Presidency Banks in an Imperial Bank of India might result in Government being forced to establish a State Bank on purely official lines and to withdraw their connection with the three Presidency Banks.

" The importance of the proposed Imperial Bank having a London Office hardly calls for any comment, suffice it to point out that the majority of the Dominion Banks and the great foreign Banks have London Offices which are greatly to their advantage, and the desirability of the contemplated Imperial Bank being placed on a similar footing cannot be overrated, the more especially as some of the Exchange Banks in India are not British in their interests and there is a considerable likelihood, unless India be linked up with London in a semi-official manner, that Japanese, American and other foreign financial concerns may obtain a voice in the monetary affairs of India to the detriment of both Indian and British interests, and, moreover, the advantage which is enjoyed by other Banks doing business in India of possessing offices in London having direct access to the Secretary of State in Council would be an undoubted asset."

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* The following quotations from Baster on "Imperial Banks" throw some light on the situation envisaged in the circular and on the state of public opinion in the United Kingdom:—

" The exactly parallel case of the attempted absorption of the National Bank of India by Lloyds and the consequent hurried amalgamation of the Presidency Banks is noteworthy in this connection " (page 226).

* * * *

" On 24th November, 1927, Commander Bellairs asked the Chancellor of the Exchequer whether he was aware that when the agreement for the amalgamation of the National Bank of India with one of the great London banks was ready for submission to the shareholders in 1917, the Treasury intervened and vetoed the transaction; and whether it was still the considered policy of the Treasury to oppose amalgamations between banks in Great Britain and banks in the Empire. The answer referred " my hon. and gallant friend to the reply I gave on the 7th July, 1925. . . ." For reasons which he will appreciate, I am not at liberty to make any statement as regards specific applications. . . . The statement of 1925, according to Mr. Churchill, does not apply to banking amalgamations in the Mother Country only, but is general in its effect. It reads: " Whilst I cannot forecast the recommendation of the Committee in cases not before them, I share the view expressed by my predecessor, . . . that further amalgamations with the larger banks would not in principle be regarded with favour by His Majesty's Government " (page 243).

When the emergency of the establishment of " a State Bank on purely official lines " arose in 1927, the authorities of the Imperial Bank were not slow in securing " a profitable partnership " with the proposed Bank. So far as the ' Exchange ' Banks are concerned with the usual statesmanship, which has characterised British enterprise outside Britain, differences were never allowed to become acute, and it would appear now that there is a very close and friendly understanding between the Imperial Bank and the foreign banks. Whether such an alliance would seriously hamper the working of the Reserve Bank, when established, remains to be seen.

263. The Imperial Bank has been financing the foreign banks and acting as their bankers. The difficulties of the foreign banks during the war enforced a closer co-operation between the Imperial Bank, or its predecessors, and the foreign banks. The basis of co-operation thereafter has been the continued embarrassment of Government in the maintenance of their exchange policy. The more frequent use of contraction for maintaining the exchange, and of a high bank rate to support such contraction, and of extensive use of Treasury Bills to prevent remittance by ' Exchange ' banks of funds in their hands, has brought the foreign banks working in India and the Imperial Bank as Government bankers, in much closer contact. It is said that the Imperial Bank acts as bankers' bank, and the following figures of cash balance by the various banks have been given:—

(In lakhs of rupees.)

Date.	Exchange. Banks.	Indian Joint Stock Banks.
	Rs.	Rs.
31st March 1928	3,20	81
30th September 1928	3,71	1,12
31st March 1929	3,28	81
30th September 1929	2,02	90
31st March 1930	1,88	81
30th September 1930	1,88	1,05

This table is interesting, but it does not take account of the fact, that the ' Exchange ' Banks not only put their balances with the Imperial Bank, but have also overdraft arrangements. It is no use showing the deposits by some of the banks at any particular date, without showing the overdraft by some of them on the same dates. Otherwise it cannot be ascertained, whether there is any support to the central bank's cash position from these banks, or whether it is otherwise.

Besides, the reduction in the amount of cash by foreign banks with the Imperial Bank during the last two years, is striking. The Imperial Bank was recently obliged to change its hours of work, and, though the real reason had never been definitely declared, there is reason to believe, that it had something to do with the practice of some foreign banks, who were paying in their cash into an overdraft account overnight, to the prejudice of the Imperial Bank.

The Imperial Bank further acts as agents of most of the foreign banks in the interior, for collection of bills, cheques, and other class of business. It is further interested in the working of the clearing house, of which the foreign banks constitute in many places a majority. There appears to be practically a general understanding and a close fraternity between the Imperial Bank and the British 'exchange' banks, perhaps through the common nationality of the personnel. I could not help noticing the common outlook of the representatives of the British 'exchange' banks and the Imperial Bank in their evidence and on our Committee on most of the matters, that were discussed.

The fact, that the Imperial Bank is working under a special Act in India, has not thus created a severe divergence of aim, or any serious practical difficulties, between it and the foreign British banks and non-British foreign banks. This is in marked contrast to the mutual feeling between the Imperial Bank and the Indian joint stock banks as a class, and it is important to elucidate the significance of this in our report.

264. The Imperial Bank is the medium, through which provision has been made for the issue of emergency currency. In the absence of a gold standard, under which the increase and diminution of currency would be automatic, through the adjustment of bank rates and the price of credit, and the price levels in general commodities, the discretion remained with the currency authority as to the amount of currency to be issued. The seasonal nature of money requirements in India, and, in particular, the requirements of large cash, has been partly responsible for high money rates. These periods of stringency have often caused great inconvenience and loss to the trade and to the public. When the position became very acute, Government responded to public opinion and created a law for the issue of emergency currency under certain conditions. This was in the nature of a compromise between the desire and volition of a banking authority and those of a currency authority. Like all compromises, it has not satisfied either party. Nor has it appeased the public.

The question of emergency currency arises, so long as the Imperial Bank continues to occupy its present position, and the Reserve Bank is not established. The existing arrangements are not satisfactory. There is no obligation on Government to issue the emergency currency and the method, which Government's hesitation to issue it has assumed, is to refuse to issue below a certain rate. When Government's position in this regard was criticised severely, Government formulated the limits above certain rates, up to which they *may* issue. These limits were conceived on a basis, which Government considered safe for currency management. As Government have the power of deflation and have exercised this power frequently, any relief on the banking side, which they might give by the issue of emergency currency, could be nullified by deflation, and if relief is to be given at a heavy rate, the object,

which the relief is calculated to secure, *viz.*, to prevent the rate rising, is not achieved. In other words, credit structure in the country is subordinated to currency requirements, and trade and industry are sacrificed at the alter of what is conceived by Government as the supreme need of maintaining the exchange.* In other countries, either there is no limit laid down in law, or sometimes the state checks the central Reserve Bank in the issue of additional currency by insisting on the payment of a tax. The gist of these arrangements in other countries is that, if there is a reasonable security to offer, accommodation to the public should not be restricted. In India the arrangements about the amount of emergency currency usable at certain rates, putting the limit as they do on transactions, which cannot be kept secret, are calculated to create more stringency than to remove it.

The arbitrary rates and the arbitrary limits on amounts issued are not justified. If Government have any obligation towards the money market, those obligations may be properly discharged. The appearance of solicitude on the part of Government, that they are discharging their obligations, and the continued existence of the stringency, which has to be removed, have been misleading in the past.

265. Emergency currency is at present available only on bills, and to the Imperial Bank. It is not available to other banks directly from the paper currency reserve. It has been given out from time to time, that it is difficult to find sufficient bills eligible for this purpose in the portfolio of the Imperial Bank. It is also notorious, that rediscounting of bills in the portfolio of other Banks with the Imperial Bank is not a recognised practice. In fact no bank would venture on it without serious damage to its credit.† Notes are being issued by Government to an unlimited extent subject to the provisions of the Paper Currency Act. If there is difficulty about bills, against which notes are to be issued, there is no difficulty about Government Securities, particularly because, other banks do take loans from the Imperial Bank on Government Securities, and the Imperial Bank's own holding of Government Securities is considerable. If the meaning of emergency currency is that the money market is temporarily short of cash, because the cash has gone out in the country far and wide to perform its function in liquidating commercial transactions, then the creation of such emergency currency under suitable safeguards is justified. The principle has been accepted by Government. But its application has not been satisfactory. Twelve crores do not constitute the limit of what the

* Indian and European Commercial opinion was unanimous on this point, the latter characterising bank rate regulation as " artificial ".

† Mr. S. N. Pochkhanawala, Managing Director of the Central Bank of India, in his oral evidence before the Central Banking Enquiry Committee, said. " But the practice here is that if a Bank goes to rediscount its bills with the imperial Bank, it would be taken to mean that the Bank is in financial frouble." In their evidence before the Royal Commission on Currency in 1925, the Allahabad Bank authorities also expressed similar views.

market may require. Nor is it the limit of what Government are in a position to supply, and may really desire to supply, and if the object of the issue of emergency currency is to prevent the rise of rates, that object has not been achieved. On the contrary, in order to secure the emergency cash, the raising of rates has been expedited.

266. It is, therefore, recommended, that Government should amend the Paper Currency Act and take to themselves the power to issue emergency notes when a case is made out for it, without any restriction as to the rate and without any restriction as to the quantity.

The establishment of the Reserve Bank would, to some extent, alter the situation, but that event, according to Government of India's despatch, cannot come, until sufficient gold resources have been accumulated. At the rate, at which India's fold resources have been reduced in recent times, and considering the danger, which has threatened them recently during a difficult exchange situation, the probabilities are that the Reserve Bank may not be established soon. The alteration in the law, therefore, with regard to the issue of emergency currency should be effected forthwith. The main point to be borne in mind is, that the restriction as to rates and amounts creates a doubt in the money market, that Government assistance will not be adequate, or timely. The removal of the restriction is therefore for the purpose of removing this doubt and not for the purpose of strengthening it so as to leave the course of Government action uncertain and erratic, as hitherto.

267. *Future of the Imperial Bank.*—With regard to the future position of the Imperial Bank, it is quite clear that when the Reserve Bank is established, the obligations of the Imperial Bank as Government bankers must cease. Various restrictions on its business, which are not applicable to ordinary joint stock banks, must also cease. If that is so, there is absolutely no reason, why there should be a special Act for it, and why it should not conform to the ordinary law of the country, and take its rank as the premier Indian joint stock bank. It would be to the advantage of banking in India, if the Imperial Bank were to take this place and were thus to experience in an unsheltered and unprivileged position, the plight of joint stock banks in India. The authorities of the Imperial Bank would then throw in their weight to improve that plight, and, seeking their own interests, they would also serve the interests of their class.

This public gain is, to my mind, of such paramount importance, that the perpetuation of privilege with the Imperial Bank in any direction, would be liable to most serious objection. An attempt to secure the continuance of such privileges was made in 1927 at the time of the Reserve Bank Bill, in what was called by the Finance Member a 'profitable partnership' between the two institutions. But the position was peculiar then in so far as a contract, which was to run out in 1931, was being broken without notice and the Imperial Bank was entitled to some consideration. No such

ground now remains, and considerations of public policy point to the other need of allowing this fullfledged and strong bank to go into the field unaided, and to take the top place in the hegemony of Indian banks.

268. The nature of the concessions, which the Imperial Bank is seeking in the event of the Reserve Bank being constituted, is best illustrated by what was involved in the provisions, as they were proposed at the time of the Reserve Bank Bill. I shall quote from the circular of the Imperial Bank of India.*

" It will be seen that such Agreement which now only has a short further period to run could no longer be maintained once a Reserve Bank came into being and the proposals aforementioned, which have been made to your Bank by Government as compensation against the event of its being deprived of the benefits of that Agreement, are shortly as follows:—

(1) The Imperial Bank should be given the option of subscribing for 30 per cent. of the capital of the Reserve Bank, *i.e.*, 1½ crores.

(2) The Reserve Bank should enter into a contract with the Imperial Bank for 25 years by which the Imperial Bank would do the agency business of the Reserve Bank during this period at all places where there is a branch of the Imperial Bank.

(3) For conducting the Government account, etc., at its up-country branches in the same way as it is doing now, the Imperial Bank should be paid a commission on turnover, *i.e.*, total receipts *plus* total disbursements, made on behalf of Government. The commission should be 1/16 per cent. for the first 250 crores and 1/32 per cent. for the remainder.

(4) On condition that the Imperial Bank keeps open the same number of branches as at present exist the Reserve Bank should allow the following free and cheap balances to the Imperial Bank:—

1st five years . .	3 crores free.
2nd five years . .	2 crores free *plus* the option of 1 crore at 2 per cent.
3rd five years . .	1 crore *plus* the option of 2 crores at 2 per cent.
Last ten years . .	The option of 3 crores at 2 per cent.

Any branch opened in substitution for one now existing would have to be approved.

(5) For approved new branches opened by the Imperial Bank in addition to the number already opened, the Imperial

* Dated Bombay, 14th April 1927, under the signatures of Sir Norcot Warren and Sir Norman Murray.

Bank should be allowed the following free balances per branch opened:—

1st five years . . 3 lakhs.
2nd five years . . 2 lakhs.

This provision would naturally only apply to the end of fifteen years of the contract, unless at that time a fresh agreement were entered into for its continuance."

269. For the following calculations arising from these clauses, I am indebted to the enterprise of the "Indian Finance" Special Banking Enquiry Number.

The remuneration payable under clause (3) above worked out as follows on the basis of the total receipts and disbursements for the years 1924 to 1926:—

	lakhs of Rupees.
1924	16·82
1925	17·58
1926	18·26

As regards the value of free balances and balances at privileged rates of interest, the benefit to the bank was, on the basis of an average return of 4 per cent. per annum.

Rs. 12 lakhs during the first 5 years,
Rs. 10 lakhs during the second 5 years,
Rs. 8 lakhs during the third 5 years, and
Rs. 6 lakhs during the last 10 years.

The total remuneration under clauses (3) and (4) was, therefore, Rs. 30 lakhs* during the first 5 years of the agreement, Rs. 28 lakhs during the second 5 years, Rs. 26 lakhs during the third 5 years and Rs. 24 lakhs during the last 10 years.

The free deposits by the State on account of branch banking extension under clause (5) above may be valued at Re. 1 lakh for each branch, spread over 10 years.

In addition to the foregoing, the restrictions on the foreign exchange business of the Bank were proposed to be removed and of the various means of control, only that relating to the appointment of auditors was retained, the rest being done away with.

That such ideas are still running in the minds of the Imperial Bank authorities may be inferred from what Sir Osborne Smith, Managing Governor, told us in his letter, dated the 24th February 1931.

"In regard to the alternative to my recommendations, *viz.*, the creation of an entirely new Reserve Bank, I take it the Imperial Bank would act as Agents throughout India for such Reserve Bank and that all the restrictions under its Act which it at present labours

* It will be noticed that Rs. 30 lakhs a year would work out at six per cent. on Rs. 5 crores, which is proposed to be the capital of the Reserve Bank.

under would be removed, and the Imperial would become an active competitor with the Exchange Banks.

I consider it would be expensive and superfluous to create a new institution. As the big centres at least are already over-banked, and further competition would seriously embarrass existing Indian institutions, every consideration should be given to unscrambling the Imperial Bank as I have suggested."

The following question put by me to Sir Osborne Smith and his reply thereto speak for themselves:—

Question.—" If it was decided that the Reserve Bank should be a separate institution, is there any need for a separate Imperial Bank of India Act? Is there any objection to the Imperial Bank becoming an ordinary joint stock bank under the Indian Companies Act on the same basis as any other joint stock bank in this country?

Answer.—I do not diverge from my view that the Imperial Bank should become the Reserve Bank. Should however a separate Reserve Bank be established, it would be necessary for it to have agencies in the various centres, as it would be wholly unprofitable and an iniquitous charge on the Central Institution to open sufficient branches for its purpose. The sole institution in India with sufficient branches to adequately perform agency duties is the Imperial Bank and, as such duties would entail the management of Currency chests, Treasuries, etc., the Imperial Bank Act suitably amended should be advisable, indeed necessary, as the Bank must have a status and responsibility apart from other banks."

270. The position needs a close examination. The suggestion is that when the Reserve Bank is established, it should have as few branches as possible, and it should give the monopoly of agency work to the Imperial Bank, including the management of Currency chests and Treasuries, etc. The grant of such monopoly would require the introduction of a separate act, that would give " status and responsibility " to the Imperial Bank, though all the restrictions on the Bank's business are to be removed. Not only that, but the Imperial Bank is to be welcomed and preferred in the field of foreign exchange in place of a new institution, because the multiplicity of institutions would " seriously embarrass existing Indian institutions "! Sir Osborne Smith was emphatic against the proposed restriction on the power of foreign banks to take Indian deposits, or against the proposal that they should not have branches in the interior, both of which measures were suggested for the benefit of existing Indian institutions, but he desires the interests of existing Indian institutions to be considered, where a new institution is proposed, which would tread on fields and pastures, on which the Imperial Bank is casting a covetous eye. The implied obligation to keep existing branches open on the part of the Imperial Bank in 1927 suggest a peril, which is non-existent and which seems to be largely created as a bargaining point in favour of the Imperial Bank. The wholly unprofitable and iniquitous charge on the central institution to open a sufficient

number of branches, has not been found either unprofitable or iniquitous in France, where the central institution has many branches. It is one thing to seek convenience and economy for the Reserve Bank in carrying out its function, but it is quite a different thing to sustain a monopoly, and to establish the privileged status for the Imperial Bank through this excuse. On what terms is the Reserve Bank going to make this arrangement with the Imperial Bank? The discussion did not take place in the Committee, probably because it was premature, but in view of what has happened in the past and the extravagant terms sought by the Imperial Bank as the price for releasing the Government of the country from the contract, the Reserve Bank Board should not make exclusive arrangements with the Imperial Bank, or arrangements for a long period, and the terms should be most carefully scrutinised. An additional reason for scrutinising such terms would be that, as agent of the Reserve Bank, the Imperial Bank would have considerable funds belonging to the Reserve Bank in its possession from time to time. These would be not only funds on their way from general revenue into Government balances, but also funds, which the Reserve Bank would want to invest in various directions permitted by the Act and for the discharge of its obligation towards the banking system of the country and towards agriculture and industry. The provisions for compulsory deposit of cash from member banks would thus in practice be largely inoperative in the case of the bank, which is agent of the Reserve Bank. In the agency work itself not only are primacy and status involved, but there is lurking a real advantage, which would enable the agent of the Reserve Bank to compete on unequal terms with Indian joint stock banks.

271. The attempt to secure further privilege will be made and I must utter a warning against giving such privileges. I am uttering this warning, not because I have any antagonism towards the shareholders of the Imperial Bank, but when so much is being heard with regard to the principles of self-help in the field of co-operation and as regards indigenous bankers and Indian joint stock banks, it would be legitimate to preach these principles at least to a bank, which, has not only attained maturity, but which has a magnificient history behind it, and which has prestige, large accumulated reserves and a trained staff. It is essential to destroy this suspicion in the minds of the joint stock banks in the country, that privileges have been given to the Imperial Bank, which in effect prevent their growth.* It is essential to remove that suspicion from the mind of the Indian public.†

* I find that it was stated in evidence before the Currency Commission that when the Imperial Bank came and opened branches at places where the Allahabad Bank was working, the Imperial Bank immediately formed a contract through its brokers for the purchase of a large quantity of Hundies payable on demand at rates which could not pay the other banks.

† Lala Harkishen Lal, who, in his life time, has been to my knowledge the founder of three large joint stock banks in India, expressed himself as

(Footnote continued next page).

272. The grant of the privileges, therefore, to the foremost and strongest bank in the country in order to induce it to do some service, which was considered of importance in the field of financing of the foreign trade or of industry, would be ill-conceived and harmful. I regret, therefore, that I am opposed to any form of barter of the right of acting as agents of the Reserve Bank for five years against the entry of the Imperial Bank in foreign exchange business. This is the class of business, from which it was shut out by statute, and it has complained against such exclusion from a "profitable field". Even Mr. MacDonald, the Managing Governor, who appeared before our Committee, pointed out that, if released, it would be able to enter this business with confidence and without any difficulty in two years. It was pointed out in the discussions of the Committee that the Imperial Bank had already a nucleus of business in this line, however small, in connection with the remittances of its constituents amounting to £6,000,000. Under the circumstances, I cannot see at all the need of any special or extra inducement in this direction. If an inducement is given to the Imperial Bank to enter this field, why is it that any other joint stock bank, that may want to enter this field, should not be given this inducement or its money equivalent? On what principle is the Imperial Bank picked out for this special favour? It is not a favour asked for by the Imperial Bank after examining the question and finding that they are unable to enter into this business without such special facilities, or without a *quid pro quo*. The offer of any special favour now to them is betraying an unhealthy anxiety to induce a concern to do something, which it will only do, if and when its directors are fully convinced of the profitableness of the programme.

273. Similarly in the field of industrial finance, the placing of debentures with the public, etc., the suggestion that the Imperial Bank should be utilised is a sound one, but it has been over and over again mentioned to us, that it all depends on whether the shareholders and the directors decide on such class of business and that they would only do so, as and when they consider it profitable. It is remarkable, that neither of the two Managing Governors, who

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follows on the Reserve Bank Bill and the proposed privileges to the Imperial Bank.

"One could not devise a deeper measure of monopolising the whole banking of India and more complete usurpation than this Bill does. It amounts to this:—

"No Banks but the Imperial Bank of India, no humbug of National Banks, Industrial Banks, Commercial Banks, but the Imperial Bank of India. If the favourite one appears in a fisher's hut or on a house boat or in Timbucto, three lacs free of interest for five years equivalent to a gift of Rs. 21,000 a year at the present rate of the Imperial Bank investments. Then the free supply of gold; not from the Reserve Bank. How sometimes positives are used to mean negatives. I do not propose to dilate on the interliner readings of this measure, as I have no doubt Pandit Moti Lal Nehru and his flock in the Assembly and Mr. Thakur outside will be able to meet the situation."—(Page xv of the Introduction to the "Organization of Indian Banking", by Thakur.)

appeared before us, nor the representative of the Imperial Bank, who was a member of the Committee, ever indicated the direction, in which the Imperial Bank had fixed the programme for the future, in the event of the Reserve Bank of India being established, or the various alternatives, which may be open to the Bank. So long as the directors and the shareholders of the Imperial Bank maintain a sphinx-like silence, it is not for any public authority in India, much less for the Central Banking Committee, to discuss what this institution should do in future. Any inducements now formulated may be found either unnecessary, or insufficient. Where such inducements take the form of a special act and constitution, of special status and privileges, and of special contract, as a matter of public propriety, I think, the initiative should come from the Bank authorities. There should be very special reasons justifying a departure from the policy, which I am recommending, *viz.*, *to improve the general condition and outlook of all Indian banks.* Only those, who are ready, will take the maximum advantage of the improvement. I regard the Imperial Bank from every point of view well-equipped and in the vanguard. I am confident, therefore, that the Imperial Bank will gain in many directions through the various measures, which I have suggested, without any special privileges, status or contract.

CHAPTER XVII.

THE RESERVE BANK.

274. The scope of this report, which has to be limited in bulk, does not permit a comprehensive resume of numerous discussions with regard to a central banking institution, which have taken place in India for a long time now. Loose ideas have existed with regard to the relation of Government and trade and the relation of Government and banks. In connection with the employment of a bank as Government bankers and in connection with the note issue, various discussions have taken place in the past. Ideas have crystallised both in India and elsewhere in the world in the matter of the proper function for a central bank, and they were reflected in subsequent projects, which were put forward. The most notable of these was that of Mr. Keynes in 1913, but the Imperial Bank Act of 1921 did not by any means absorb the essential ideas. It did not even remove the prevalent misapprehension with regard to rediscount of bills of other banks by the central bank. It would be to the credit of Sir Basil Blackett that soon after his arrival, he noticed this gap in India's financial organization and devised measures to fill it up. It is, however, regrettable that even in the formulation of these measures, some essential factors were omitted and some were distorted. The unhealthy and injurious effect of London City opinion on India's financial destiny could be discerned in the provision of bills, which were then introduced, and, above all, could be seen the triumphant dominance of vested foreign interests in banking in India. The establishment of the Reserve Bank was sought, it would appear, amongst other things, to take away public attention and divert blame from Government in respect of charges of manipulation of currency. When a country is not on a full and proper gold standard, automatic conditions do not exist, and manipulation, is certainly inevitable but necessary. One can fully sympathise with the Finance Minister of India, when he said before the Federation of Indian Chambers of Commerce in Delhi on 8th April 1931, as follows:—

"The chief basis of criticism is that in India it is the Government that is the chief currency authority, while in other countries it is the Central Bank. Government's actions are liable for criticism much more than those of a bank and more so, when there is a so-called alien government."

275. One cannot help noticing that the first Reserve Bank bill included as member banks 10 British, 9 foreign, and only 7 Indian banks. This meant that the Reserve Bank, while relieving Government of its currency functions, would have its dealings confined to 19 foreign banks and 7 Indian banks. The anticipated benefit in the credit machinery was going to be used more extensively by foreign banks, not only greater in number, but in strength. While the Reserve Bank had restrictions, unusual in the constitution of central banks, which would have prevented it from interfering with

foreign banking interests, or competing with them at any point, it would have placed at the disposal of these foreign interests concentrated resources, which would have enabled them to further strengthen their very strong position in this country. From India's point of view, the disinclination to set up a costly and elaborate mechanism at the top until the Indian banking position was not only examined but considerably strengthened at the bottom, was voiced in his minute of dissent by Sir Purshotamdas Thakurdas. Sir Basil Blackett, however, expressed himself emphatically on this subject.

"And the plain fact is that one institution cannot fulfil both these requirements. Nor would it be fair to other banks or in the long run consonant with the interests of India to permit one single institution to monopolise the field."*

Indian anxiety now is in the direction of having a Reserve Bank of the right sort, and public opinion appears to be generally reconciled to the idea of a new institution.

276. *The need of the Reserve Bank.*—The staple argument in support of the establishment of the Reserve Bank in India has been the desirability of avoiding dual control of currency and credit by concentrating them in one hand, and the more effective use of the combined central funds for meeting the combined obligations in relation to both. This cryptic statement involves assumptions, which may be elucidated. In order to establish confidence in the currency of the country, arrangements have to be made for prompt convertibility from one form into another for internal purposes and for regulation of the issue of different forms in quantities required. Where all forms are convertible in gold on demand, which can be used for effective payments abroad, the system would be called gold standard and the mechanism of the exchange would be governed by automatic movements to and fro of gold at the higher and lower gold points. The manipulation of price levels and expansion and contraction of credit involve under a managed system much more scope for human miscalculation. The adjustments are uneven and by jerks. They are worked on the system of trial and error. Their full force is felt disproportionately in some centres and in some markets. The inevitability of management of all standards does not mean that world opinion is reconciled to the wisdom and infallibility of the greater management and manipulation, which cannot be divorced from a gold exchange standard. Arrangements have to be made for securing the cancellation of obligations both-ways as far as possible and for meeting the gap, when it is created by any extraordinary situation involving excessive favourable balance or *vice versâ*. The fixity of exchange then becomes a very important consideration and numerous measures involving the subordination of other economic factors have to be employed. If such a system of managed currency is unavoidable, the carrying out of various measures to secure the fixity of exchange could be

* Address before the Delhi University, 1926.

more conveniently done by a bank than by the state, both from the point of view of interference and comment from public opinion in India and abroad, and pressure of various interests from India and abroad.

277. Amongst such measures, which become inevitable, to meet the situation where the balance is unfavourable, would be contraction, which could not be effective if it is merely brought about by deflation of currency. As banking habits grow, and to the extent to which credit instruments become the medium of exchange, credit has also to be restricted. Authority in dual hands under these circumstances is unthinkable, and excessive control by Government, as currency authority, of the central bank, which ought to have the effective means of regulating it, is also undesirable. It is not open to us, as indicated by the Chairman, to import in this report any discussions on currency matters. I shall not, therefore, raise the topic as to whether the direct and indirect price paid by a country in securing, or attempting to secure the proper working of a gold exchange standard is, or, is not greater than the cost of a gold standard proper. The Reserve Bank in India, when it is established, would necessarily become the currency authority for such standard as is fixed by the law, and would have its obligations in this direction defined in conformity with that law. That it will be able to carry out the dual obligations in respect of currency and credit better and more economically than they are carried out under the present unsatisfactory system of divided control, cannot, however, be gainsaid.

Arguments for the need of the Reserve Bank from the banking side would be found in the deficiency of the Imperial Bank as bankers' bank and regulator of credit. The existing provisions for emergency currency examined elsewhere in this report, do not allow that elasticity of issue, which has been secured either by law or by practice in most countries, whose experience can guide India. The advent of the Reserve Bank would undoubtedly improve the situation in this direction. There is no reason to doubt that this country can be saved from the high bank rates at certain seasons, from which trade, industry and all persons having money operations in the country have suffered directly and indirectly. The 'artificiality'* from the bank rate policy of the Imperial Bank could be removed by the Reserve Bank, with whom the business motive of profits may not be as strong, and who may be expected to carry the larger amount of cash at the slack season to enable them to meet,—without frequent changes in the bank rate, or without taking it up to a high level—the known seasonal demands for additional money from year to year.

278. The proposal for the establishment of a Reserve Bank derives its strength also from the necessity of divesting the Imperial Bank of the restrictions on its business and of special privileges,

* *Vide* Oral Evidence of the Bombay Chamber of Commerce, questions Nos. 195 to 203.

which enable it to compete on unequal terms with Indian joint stock banks. Those, who look up to the central bank for assistance, either in normal times, or when a crisis is feared, cannot do so with confidence when the institution, whom they have to approach, is an institution, which at some point and in some manner, is a competitor in their normal legitimate activities.

The establishment of a central bankers' bank will eliminate the stigma attached to the rediscount of bills by banks, will encourage acceptance business by indigenous bankers and banks, and may be expected to help in popularising the use of the bill, and in organizing the bill market. The needs of agriculture, of the co-operative movement, and of a greater amount of land mortgage credit, could also be attended to by the Reserve Bank better than now. It has been indicated in other sections, what part the Reserve Bank is expected to play in the financing of industry and of foreign trade. Above all, the need for the Reserve Bank arises, because there is no one in this country at present charged with the function of supervising banking development and of watching, that, from the national point of view, it is on right lines. A central banking authority of unequalled status, of unquestionable integrity and detachment, and of unfettered and wide powers, could do much, which is not being done at present, for the advancement of banking.*

279. *The time for establishing the Reserve Bank.*—Arguments supporting the great need for a Reserve Bank also sustain its urgency, but delays in initiating financial measures urgently needed are nothing unusual in India. Several of my colleagues shared the apprehension that the Reserve Bank might not be established for some time, and they therefore, recommended that, if it was not established within three years, the state exchange bank was to be called into being. The same apprehension derives strength from quite a different quarter. Government of India deal with this question in their despatch. " It must, however, be admitted that the present is an exceptionally unfavourable time for an attempt to establish a reserve bank. During the present period of falling prices the currency authority of a country like India, which relies mainly on agricultural exports, must be forced, in order to fulfil its duty for maintenance of exchange (whatever the statutory ratio may be), to follow a course involving the removal of redundant currency from the market. The bank would have to rely on the use of its sterling resources or on sterling borrowing, in which respect its position would be far weaker than that which the Government has

* Even Sir Basil Blackett appeared to share this aim as the following will show:

" It is recognised on all hands that they offer to India an immense advance towards more than one of her aspirations. At one stroke control of Indian currency and finance will be transferred from a centre situated at some point between Whitehall and Delhi into the sole control of India. And while geographically the control will be in India, the atmosphere in which that control will be exercised will be no longer a Governmental atmosphere but an atmosphere permeated by the views of representatives of agricultural, commercial and industrial India." (Delhi University Speech, 1926.)

held hitherto with the credit of the Secretary of State behind it. But more important still, as has already been pointed out, any sudden change in the administration, or fears as to the future constitutional position, may start a tendency for capital to leave India, and so long as this is going on, the balance of remittance may be insufficient, with a consequent increase in the strain on the bank's reserves or on its capacity to borrow. Lastly, a special difficulty is created by the fact that in any case a special strengthening of reserves is necessary, for the present gold and sterling reserves held for currency purposes by the Government cannot be regarded as sufficient for the secure working of the reserve bank even in normal times. As indicated in the report of the last Currency Commission, these reserves will require to be built up gradually, and it is difficult to see how, in all the circumstances, this can be done without further external borrowing on a large scale.

" The combination of circumstances, to which we have referred, means that the inauguration of a reserve bank to relieve the Government of its functions in regard to currency and exchange is a matter, which demands careful preparation and a combined effort by the Government and the people of the country. It cannot be regarded as a condition easy of fulfilment or lightly left to an uncertain future. At the same time, we must make it absolutely clear that it ought to be definitely a part of our programme, and that it should be undertaken at the earliest possible moment."*

The following is also of interest in this connection:—

" The Sub-Committee recommend, with a view to ensuring confidence in the management of Indian credit and currency, that efforts should be made to establish on sure foundations and free from any political influence, as early as may be found possible, a Reserve Bank, which will be entrusted with the management of the currency and exchange."†

280. I am sure the public will look to the report of the Central Banking Committee for some enlightenment regarding any reasons justifying a delay. From this point of view, it is unfortunate that " sure foundations," the need for which may be readily agreed to by all in its application to the Reserve Bank, has nowhere been defined. Sir Osborne Smith, in a letter to the Committee, dated 24th February 1931, said:—

" What sane authority would assume responsibility of these operations in such times as we are passing through and with a large proportion of the country's reserves in unstable silver! Therefore, before a Reserve Bank comes into being I consider it essential that substantial gold and sterling security reserves should be provided."

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* Pages 150-151.

† Extract from the Report, Federal Structure Sub-Committee of the Round Table Conference, paragraph 18.

Nevertheless, he goes on to say:—

"My idea follows the line of making, if feasible, the Imperial Bank the Central authority. This would necessitate (for a major reason explained hereafter) shedding its trading activities to preferably reconstituted Presidency Banks. Admittedly this reconstitution would be a complex problem, but not insurmountable and of course subject to the consent of Imperial Bank shareholders. The Presidency Banks, which in the past were highly popular and with their numerous branches throughout India would act as agents for the Central (Imperial Bank) . . . . . An added advantage in constituting the Imperial Bank the Reserve Institution is that a ready made commercial directorate comprising the foremost brains, both Indian and European, and subject to shareholders' sanction, would be available, thus removing the contentious rock on which the previous bill crashed. The Board would be completed by Government's nomination to represent sectional interests."

On the position set out above, the following examination throws more light:—

"*Mr. Manu Subedar.*—It is acknowledged that a Reserve Bank, in order to function effectively, would have to possess adequate gold reserves. It is the feeling of certain people that India must accumulate these reserves before starting the institution. Others think that the functions of the Reserve Bank are at present being imperfectly performed by the Controller of Currency on the one hand, and the Imperial Bank of India, as it is, on the other hand, and there would be an advantage in establishing a Reserve Bank with such funds as are available. The combination of the functions in one hand would ease to some extent the position and make the available funds at least more effective than they are now either for the control of currency or for the control of internal credit. From your letter and the proposal to split up the Imperial Bank, it would appear that you also favour the establishment of a Reserve Bank with, say, half the capital and reserve in the Imperial Bank and with such funds from currency reserves, Government balances, and compulsory Bank reserves as the new Bank would have. Please indicate whether the balance of advantage for India would be in the early establishment of the Reserve Bank with available funds, or in waiting, perhaps fruitlessly for a long time, for what may be considered adequate funds.

Sir Osborne Smith.—The main factors operating against the establishment of a Reserve Bank at present are:—

(1) Inadequate Gold and Gold Securities Reserves and a disproportionate amount of unstable silver.

(2) The low level of commodity prices causing dullness of trade and consequent weakness of rupee exchange.

After giving full consideration to your question I am of opinion that it would be unwise to institute the Reserve Bank on any but the soundest lines and with adequate Gold and Gold Securities

Reserves. Such can only be acquired when confidence is restored but there may be a favourable turn of the tide at any moment thus making the requisite loan possible.

N.B.—Although I strongly favour the establishment of a Reserve Bank, I made no recommendation in regard to the Imperial Bank such as is set out in the question."

281. It is not altogether clear from official pronouncements, whether the new institution is not to start until adequate reserves are built up, or, it is to help, after its inception, in that task. The following words from Sir Basil Blackett appear to lend support to the latter assumption:—

"The building up of a reserve of gold and gold securities adequate for all emergencies, and the management of reserves of rupees and rupee securities in a manner calculated to secure increased elasticity combined with complete security, the control of Government balances which are to be deposited with it both in and outside India, the management of the remittance programme of the Government of India in strict relation to the automatic working of the currency system and to the maintenance of the absolute stability of the gold value of the rupee, and finally the duty of watching over and assisting the growth of banking in India generally,—these set out, though not exhaustively, some of the more important functions of the proposed Reserve Bank."*

If the present moment is not unpropitious for a reconstituted Imperial Bank to become the Reserve Bank of India, I cannot understand the counsel of extreme caution about soundest foundations being urged in the interests of further delay, when a new institution is proposed. The only advantage in splitting up the Imperial Bank and creating a Reserve Bank from it, would be, that it would save Government having to find Rs. 5 crores, which would not be a very difficult matter for Government, but which would seriously weaken the position of the residual Imperial Bank doing ordinary banking, which ought to retain its premier position amongst the Indian joint stock banks. Nor can it be said by any one, that the present Board of the Imperial Bank would command the confidence of the Indian public, if the bank were bodily changed and installed with the control of the currency. I cannot help wishing, that Sir Osborne Smith had indicated, what would be considered "substantial gold and sterling security reserve" or "adequate gold and gold securities reserve." The Committee, unfortunately, did not discuss it either, though it was mentioned that the immediate shortage, if the provisions of the last Reserve Bank bill were to be the basis of calculation, was something like £ 13 millions. Since the value of silver in the reserves is falling and the nature and composition of the reserves, including the gold resources, is constantly changing under the stress, through which the system is passing, calculation on existing figures of note issue and reserves would be somewhat inconclusive. But, if inadequacy

* Address before Delhi University, 1926.

of resources is to be made the ground for delay in the establishment of a Reserve Bank, it would engender public confidence in the measure whenever it is initiated, if Government were to indicate specific amounts, which they consider adequate, and the difficulty of raising these amounts.

282. In the absorption of gold, India has acquired a bad name in the world, and international opinion appears to have combined in keeping India out at least with regard to the use of gold for her currency purposes. The scramble for gold is causing distress for a financial centre like London, and the revival of any discussion, by which, India, which has always had to take a second place, would invade the gold stocks of London, is likely to be deprecated in high quarters. Sir Osborne Smith would also appear to think that for the necessary gold loan to start India off with her Reserve Bank, the propitious moment is not yet. Whether such a gold loan could not be raised at a centre other than London, such as New York, has been a matter of discussion in journals like the " Indian Finance ", but does not appear to have been officially considered. Sir Osborne Smith, when he was before us, instanced the failure of the Australian loan in New York, the bulk of which came in London for resale. Whether this was because New York foresaw the essential weakness of Australian finance and did not want to hold on to these investments, or, whether it was because the cross rate between London and New York was favourable to the sellers of securities in London, it would be difficult to say. But the possibility of India raising a gold loan in New York to be used for the specific purpose of establishing the Reserve Bank is so vital to the determination of this question and of many essential banking reforms, which hang on the Reserve Bank coming into existence, that I recommend a special enquiry through a financial mission to New York, if and when inadequacy of gold reserve becomes the sole ground for delay.

It is distressing that the world stock of gold should not be available to India for this purpose, even when India is willing to pay the price. Sir Osborne Smith referred also to the possibility of securing gold in India from patriotic Indians for this purpose. While I would support every effort to secure the necessary gold in India and also to concentrate as much of the stock held in India in the hands of the Reserve Bank, I feel that the releasing of Indian gold stocks in this country will follow, and cannot precede, the establishment of the Reserve Bank. The motive for hoarding gold or bullion can be destroyed, only when gold bullion is made freely available against currency, that time seems to be far off yet, but the intermediate step with regard to bullion certificates would certainly lead to the beginning of that confidence.*

283. There are advantages in the immediate establishment of the Reserve Bank. India cannot have a central bank better than she can afford, and the central bank established with such funds as

* (*Vide* paragraph 302 regarding bullion certificates.)

are at the moment available, cannot function worse than the Finance Minister as the currency authority and the Imperial Bank as the banking authority are now functioning. The nature and extent of these funds are known to the public now and will continue to be known to them after the Reserve Bank is established. The inadequacy of gold resources raises problems even now and the difficulty of these problems is not going to be materially increased, if the Reserve Bank, as a limb of the state, had to face them, instead of Government. It would only mean that some of the functions, which the public would expect the Reserve Bank to perform, the Reserve Bank would not be able to perform. Are these functions being performed now and are these obligations being fulfilled now?

The ground for urging an immediate establishment of the Reserve Bank is to allay the suspicion, which is gathering in Indian minds, and which was expressed with characteristic emphasis by Sir Purshotamdas Thakurdas at the last meeting of the Federation of Indian Chambers of Commerce. He said: "We are convinced that the economic fabric of the country is being woven by other than Indian interests." Suspicion is the reverse of confidence and it destroys the foundation of credit. If it is of importance that confidence should be established in the financial institutions set up in the country, particularly in the Reserve Bank, it follows that suspicion in the minds of Indians in connection herewith must be removed. It is unfortunate that at the Round Table Conference the question of the reservation of certain financial powers was made dependent upon the emergence of the Reserve Bank. The question of the Reserve Bank, it would appear by some strange fatality in India, gets mixed up with political issues, which have little or nothing to do with it. Since the Reserve Bank question assumes an overwhelming importance in the recommendations of the committee and since the threads of many other recommendations have got to be held by the Reserve Bank as the proposed central banking authority in the country, I may be permitted to emphasise the need of separating the Reserve Bank question from other constitutional and financial questions and of allaying the public apprehension, that the establishment may be delayed, even after it has become possible on financial grounds, through other and extraneous causes.

284. *The Constitution of the Reserve Bank.*—The following extracts from Government of India's despatch on constitutional reform (1930) indicate the views of Government on this subject:—

"We wish here to emphasise one further consideration, *viz.*, that it will be necessary that the constitution of the bank should contain safeguards for its future control against the danger of political interference. We should hope that it would be possible to convince Indian opinion of the desirability that such a bank should work in close co-operation with, and on lines approved by, the Bank of England. This idea could be supported by the general consideration of the importance of co-operation between the central

banks of the world, and especially within the Empire; while the action just now being taken by the Bank of England in giving counsel in a period of great difficulty to Australia may help to convince Indian opinion of its value. Whatever the future for India may be, she must always be greatly dependent upon her standing in the London money market, and nothing could be of greater service in this direction than a close co-operation between a central bank for India and the Bank of England."*

" That the right course must be for India to follow the practice of other countries, by providing that the control of both currency and credit should be united in the hands of a central bank acting independently of Government. The underlying idea in all countries is that the currency authority should be free to conduct its policy in accordance with the dictates of sound finance detached from all political influence."†

" We wish therefore to state in unambiguous terms that the formation of a reserve bank on sound lines must in our view be a condition precedent to any transfer of financial responsibility from the agents of Parliament to a minister answerable to the Indian legislature."‡

" When the reserve bank scheme was under discussion in 1927, it was contemplated that the bank should undertake all the remittance operations of the Government of India, and would supply the Secretary of State with sterling funds against corresponding debits in rupees in India. If the same line is followed when a reserve bank is created, practically all the control of the Secretary of State over the details of the currency and ways and means operations will automatically cease, and it might then be desirable to relieve him of the function of floating loans for the Government of India. The reserve bank manager in London might have an advisory committee to assist him, and the High Commissioner in consultation with the manager of the reserve bank and his advisory committee, could suitably undertake the management of the Government of India's sterling borrowings."§

" We should further suppose that by that time the advisory committee of the London branch of the reserve bank would have been constituted. This committee would be available to give advice either to the finance minister or to the Governor-General with his financial adviser. The future evolution of these arrangements would necessarily have to depend on practical experience."‖

285. In Sir Basil Blackett's time, Government's anxiety to secure the passage of the Reserve Bank bill was so marked, that one would infer, that it was Government's intention to go ahead with the Reserve Bank without any reference to the Banking Enquiry. Since the Banking Committee was appointed with terms of reference, which definitely included the question of the Reserve Bank, one or two utterances of the Finance Minister gave some room for the

* Page 151. † Page 150. ‡ Page 150. § Pages 156-157. ‖ Page 155.

idea that Government might be still anxious to secure the establishment of the Reserve Bank before the report of our Committee became available. I had made enquiries from the Chairman and was informed that the Chairman was in negotiation with the Government of India. As no attempt was made by Government for bringing a Reserve Bank bill in the Assembly, it came as a surprise to me and several colleagues of mine on the Committee, when the Chairman ruled out the discussion of questions bearing on:—

(1) Whether the Reserve Bank should be a state bank, or a shareholders bank, and

(2) What should be the composition of its directorate.

In reply to a question, the Chairman made it clear that his ruling was in the exercise of his discretion as Chairman, and not the result of any communication from the Government of India or His Majesty's Government altering the terms of reference of the Committee. After this ruling, in order to proceed with the discussion of topics not shut out by the ruling, the Committee proceeded on the following assumptions:—

(*i*) The Reserve Bank would be established by an Act of the Indian Legislature;

(*ii*) The capital of the Bank would be provided by the State;

(*iii*) The Bank would be under Indian control; and

(*iv*) The Bank would be free from interference from executive or legislature (Indian or British) in its day to day administration.

It was understood that the Committee's recommendations on the working of the Reserve Bank and its relation with the money market would be based on these assumptions. As the tenets of public procedure demand, I submit to this ruling and refrain from making any recommendations on the constitution of the Reserve Bank.

286. The importance of decision on these matters may, however, be indicated. The Reserve Bank is going to be the most powerful instrument affecting the economic life of this country. Its errors and accomplishments will tell on the collective welfare of millions of people. Its action will be unseen, but not unfelt. The layman would never be able to put at its door the consequences, which may have inevitably and certainly followed from its actions. In the eyes of the world outside, anything, which the Reserve Bank of India will do, will be the index of the mind of India. The Reserve Bank could cause tensions and create animosities. It is, therefore, essential in India's interests, that the Reserve Bank should reflect in all respects the Indian nation, such as it is.

There is a material difference in the process of bringing in existence the Reserve Bank of India. In countries, where banking on modern lines is old, the central banking institution has grown. In India it is being set up ' de novo '. India has no living bank-

ing system of her own, as the final flower of which this institution can emerge at the top. Not only is banking in India by Indians limited in volume and deficient in strength, but foreign banking interests have secured a dominant and outstanding position of vantage, which they seem to be determined to hold on to. The central banks operating in different countries have points of similarity in their main functions, but in many important details, there are variations. Each country appears to have chiselled out a model suited to its requirements, but everywhere great watchfulness is exercised, that foreign interests do not interfere directly and indirectly with the central financial institution, which is at once the pride and safety of the nation.

The ruling of the Chairman, which has the effect of depriving the legislature of such advice as the Central Banking Committee could have tendered on this subject, imposes additional obligations on the Indian legislature to safeguard the Indian point of view and the Indian interest, when the question of the Reserve Bank comes up before them for discussion, because the intention appears to be that the statute will provide the policy once for all. Sir Basil Blackett made this clear, when he said.

" The Government of India and its legislature will determine the policy once for all by statutory enactment. Thereafter the whole responsibility will rest with the Bank."*

Functions of the Reserve Bank.

287. *Currency Functions.*—Under a direction from the Chairman, I refrain from commenting upon the functions of the Reserve Bank, in so far as they relate to currency matters. Where currency matters directly or indirectly over-run questions affecting the bank rate and the money market, the importation of gold in India, the constitution, location and the use of the reserves, reference to these questions would be unavoidable. In the process of thought, it is impossible to conceive of an institution brought into existence for doing certain things, without keeping in mind the activities of that institution in other directions. It would be impossible to form an idea about the Reserve Bank without taking into account all that it is expected to do. The " sure foundations " have to be sure in every direction. A sound basis is wanted as much for the success of this institution in its banking functions as in its currency functions. The Reserve Bank will be launched out as a whole and will work as a composite whole, and its success or failure will be judged as a whole.

288. *Banking Functions.*—No full discussion took place in our Committee with regard to the functions, which it would be proper for the Reserve Bank to perform. This was the result of the fact that the Committee considered the last Reserve Bank bill as it was presented,† and assumed that it was substantially on correct lines.

*(Sir Basil Blackett's Delhi University Speech, 1926.)

† *See* annexure V to this report for a copy of the Bill.

The presence in the Committee of those, who had in their official or non-official capacity the benefit of being associated with this bill, or with its predecessor in the Assembly or in the Select Committee of the two Houses, which considered these bills, may account for this confidence. I, however, cannot share this outlook. I shall, therefore, briefly examine the position of the Reserve Bank from the point of view of banking functions. The object of the bill was stated as follows:—

" Whereas it is expedient to provide for the establishment of a gold standard currency for British India; to constitute a Reserve Bank of India to control the working of that standard and regulate the issue of bank notes and the keeping of reserves with a view to securing stability in the monetary system of British India; and generally to make provisions for matters incidental thereto."

It will be noticed in the above that the banking provision comes in by the side door only. The same impression can be gathered by the paucity of clauses directly affecting banking in the bill itself.

289. *The Bank Rate.*—The rise of the bank rate during the busy period of the year is greater in India than in most other countries. The injurious effect of the high level of bank rate on trade and industry has been recognised in India universally by all shades of opinion. Elsewhere in other countries, a rise in the bank rate is regarded as a tax on enterprise. It is viewed with alarm, as it would affect directly and indirectly millions of contracts. It would affect capital value of Government and other securities, and of many other kinds of economic assets. It would affect all organized markets. The occasion for a rise is, therefore, avoided as long as possible and every effort is made to bring down the rate as soon as possible. The rate is not raised, till there is a visible effect on the gold resources of the Central Bank. It is not raised in western countries merely through larger internal demand, which is known in advance and which could be met through the elasticity of issue. In India conditions affecting bank rate have been somewhat different. They have been described as ' artificial.'* Occasions for raising the bank rate had arisen, when the cash balances with the Imperial Bank of India were fairly high, and on one occasion at all events,† it is well-known to the public, that the rate was raised against the protest of the Directors of the Imperial Bank at the instance of the Government and as part of the policy of contraction. The extreme swing of the rate and the wide gulf between seasonal rates, and the need for raising the rate for reasons other than those concerned with banking, point to an unsatisfactory state of affairs, which must be done away with as soon as possible. The establishment of the Reserve Bank and its working on sound lines will enable that periodic and seasonal expansion of currency to meet a known and heavy demand. This may be expected to keep the

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* Refer to evidence of European Chamber of Commerce.

† February, 1929.

rates down during the busy period. But the non-banking and currency reasons, which arise from the nature of the standard of currency, and from the manner in which stability is sought, will still remain. It is not open to me, under the terms of reference, to suggest remedies in this report. But the following provision, which enables the Bank to issue more notes, and which enables under certain conditions the suspension of the reserve obligation subject to a tax, improves the position very considerably with regard to the machinery for periodical expansion of cash for internal use:—

41. (1) "The Bank may, with the previous sanction of the Governor General in Council, for periods not exceeding thirty days in the first instance, which may, with the like sanction, be extended from time to time by periods not exceeding fifteen days, hold in the Reserve gold coin, gold bullion or gold securities of less aggregate amount than that required by sub-section (2) of section 31 and, whilst the holding is so reduced, the proviso to that sub-section shall cease to be operative."

Bank Rate and Discount Rate.

The main instrument for securing stability in the monetary system in its relation to credit will be the bank rate. It is defined under Section 47 as follows:—

"The Bank shall make public from time to time the minimum rate, at which it is prepared to buy or rediscount bills of exchange or other commercial paper eligible for purchase under this Act." I would recommend a modification by the addition of the following words:—

"But the Bank shall have discretion to discount paper of member banks at a rate lower than the published rate."

This is intended to give statutory power to the Reserve Bank, whenever it can, and whenever it likes, to offer a special rediscount rate to member banks. It will be open to the Reserve Bank to decide, how long the benefit of such rate will be made available and for what quantity of bills, but there may be periods, when the Reserve Bank may have spare funds, which can be usefully directed in this channel. There is an existing prejudice in India against rediscounting of bills by banks, and this prejudice has to be broken down. The Reserve Bank will have not only the power, but will have frequent occasions to come in the open market for bills. If the same rate of discount is available to member banks as to members of the public, there will be no inducement to the banks to avail themselves of the rediscount facility, except when higher money rates may be anticipated. The use of the rediscount facility would therefore remain an abnormal feature of the Indian money market. It came in evidence before the Committee that the disinclination of Indian banks to avail themselves of re-

discount facilities, which the Imperial Bank itself has never refused, arose from two causes. One was the stigma attached to rediscount, and the second was that the rates were not attractive. Since provision is being made in Section 17 (4) (*e*) for loans against promissory notes of banks, there is reason to apprehend that, whenever banks desire to borrow, they would prefer to do so under this section rather than by rediscount of bills. A special measure is desired for banks to induce them to hold a larger number of bills than at present, if the bill market is to be created. The inducement would arise from a special rediscount rate lower than the bank rate, as suggested. There would be the precedent for discounting below published rates in the practice of the Bank of England and the German Reichsbank.

290. The bank rate has hitherto been the rate, at which the Imperial Bank would be willing to lend against government securities, subject to their usual margin. The bank rate has thus signified something quite different in India, from what it signifies elsewhere. In other countries, the bank rate is the rate of discount of the central banking institution of the country, at which first class bills would be discounted by it. There is at any particular time only one declared bank rate but in advanced money markets, the normal condition is that bills can be discounted in the market at much lower than the bank rate.* The central institution itself, as in the case of the Bank of England, discounts bills for certain clients at market rate, *i.e.*, at much lower than the bank rate. The rate is in the nature of a penal rediscount rate availed of by banking institutions, who turn to the Reserve Bank, when they are in difficulties, or when the market is tight. The position in these advanced money markets is that for discounting of trade bills, there are ample funds and there is no need to supplement these by a call on the currency and Government funds in the hands of the central Reserve Bank.

The problem in India is to be envisaged from three points of view. The first is the dearth of commercial bills and the causes of this dearth principally lie in the growth of cash credit system and in the lack of touch between a large body of Indian merchants and traders and the leading banks in the country. Both these are remediable but they will take time and will want close effort. This effort would have to be largely at the hands of the Reserve Bank. It is of importance to break down, in the first instance, the prejudice attached to rediscount by banks in this country.† Even when this is done, banks will not seek rediscount at rates, at which the Reserve Bank will go into the open market to buy or discount first class trade bills. The position in western markets is that the rate for discount of bills is much lower than that prevailing for cash credit. The latter is governed by the bank rate and the

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* *Vide* Annexure II.

† Evidence of the Allahabad Bank and the Central Bank already referred to elsewhere.

former is usually much lower than the bank rate. In India the discount rate for bills for a limited amount and of chosen parties by the Imperial Bank is the bank rate, but the largest number of hundis, first class trade bills, documentary bills with genuine transactions behind them and bearing signatures of first class parties, are discounted at a higher rate. The market, therefore, for hundis works as a rule on a basis higher than the bank rate, a condition reverse of what obtains in the western countries. In order to bring about a true parallel and to bring to Indian trade the benefits of a well-organised money market, the Reserve Bank would have to encourage member banks and induce them not to charge higher for bills in any event than the bank rate. This it could not do unless it offered a special rediscount rate to the member banks. It should have the authority to do this by law, as suggested in the above amendment.

291. While having the statutory authority, they would have absolute discretion. They would have discretion as to the amount of rediscount at special rates, which they will give to any particular institution, or of the total amount, which they will offer during any particular weeks or months or days. They would have the power to refuse this to any bank at any time. But when they are in a position to do so, when they can do so with advantage to themselves, it should be a matter of policy for the directors of the Reserve Bank to offer these special rediscount rates in order to encourage banks to hold bills and to hold more of them. It is to enable the banks to make a little profit by the difference between the rate, which they charge to their clients, and the rate they would be charged. It is in order to enable India to reach soon the desirable stage of development, when discounting charges on first class bills throughout the country, except in a condition of disturbance and crisis, should normally not exceed the bank rate. The result is well worth achieving, if it can be achieved. In my opinion it can be achieved without any special sacrifice on the part of the Reserve Bank, without any departure from accepted practice, and with perfect safety.* I strongly recommend the acceptance of this suggestion. It is of crucial importance to agriculture, trade and industry of this country as tending to bring down the price of loanable money. It would materially advance the development of banking in India and of that instrument of banking, which par excellence is the safest and soundest for a bank to invest its money, *viz.*, the trade bills. The result of the rejection of this suggestion would be, on the one hand, to drive the Reserve Bank more often into the open market to engage its funds in bills. Banks may not seek accommodation from it in the form of rediscount of bills, but loans, and may in their turn advance to their clients in the form of loans and cash credits. Those banks, who are able to take their deposits at much less than the bank rate, would be opposed to this

* The foreign "experts", whose opinions have weighed so heavily with the majority of the Committee in other respects, were on this important point not opposed to my suggestion.

suggestion.* The balance of advantage in this proposal would be for Indian banks. The charge to agriculture, industry and trade by way of discount on bills will be higher, if the recommendation is not accepted, and India will be as much farther off from the approximation to conditions in countries, which have a properly organised banking system, as ever.

292. *The Reserve Bank and competition with other banks:* The Hilton-Young Commission came to the conclusion, that a separate institution was required largely on the ground that the Imperial Bank could not carry out central responsibility side by side with ordinary banking at its numerous branches. An opinion counter to this was expressed by Sir Purshotamdas Thakurdas in his separate minutes as follows:—

"Whilst fully appreciating the reasons which have induced my colleagues to propose the creation of a new central bank, and recognising that this is perhaps the ideal system, in the special conditions of India I am of opinion that the ends in view, for as far ahead as we can see will be better served by developing the Imperial Bank of India into a full-fledged central bank. It is contended that if the Imperial Bank of India is developed into a central bank, some of its commercial activities will be curtailed. I apprehend no serious curtailment. On the other hand, I consider that such curtailment of the commercial business of the Imperial Bank which might follow its conversion into a central bank would conduce to the growth of new banking institutions, started by private enterprise in India.

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"My apprehension, therefore, is that either the Central Bank and the Imperial Bank will have to compete with each other, or the Central Bank will not find sufficient scope for business to employ its funds. Either result would, to my mind, be undesirable. My question, therefore, is: Why multiply, if it can be avoided, institutions, supported by Government balances?"† During the years, which have intervened, the demand for the Reserve Bank as a separate institution would appear to have gained strength. But, for India, it is the beginning of difficult problems and not the end. The foreign "experts" recommended, and the majority Committee have accepted, that the Reserve Bank should have powers to lend on liquid stocks, on goods in transit, and on goods warehoused against appropriate documents. They

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	Per cent.
*From April 1929 to March 1930, the Bank rate in India has been stated to be 8, 7, 6, 5, 5, 5, 5, 7, 7, 7, 7, 7. (Monthly).	6·35* (average).
The deposit rate for twelve months of the Imperial Bank has been stated to be.	3½
The deposit rate of 'Exchange' Banks . . .	4—4½
The deposit rate of Indian Joint Stock Banks .	5—5½ and more.

† Pages 119-120, Report of the Royal Commission on Currency, 1925.

recommended this mainly on the ground that the bank will have to engage its funds and will have to make its authority felt by perfect freedom to come into the field, when it liked. A power, which is exercised intermittently is hardly effective, and in order to secure, therefore, some continuity, the Reserve Bank will have to build up a clientele of first class character, to whom they will give accommodation on these lines. I support this recommendation, mainly because in central banking, freedom to the central institution to do things, by which it can get control over the market, is absolutely essential. Restriction of such freedom in the interests of other banks is much to be deprecated.

293. On this principle, I wish to suggest a modification in section 17 (14), which reads as follows:—

"The borrowing of money for a period not exceeding one month for the purposes of the business of the Bank, and the giving of security for money so borrowed;

Provided that the total amount of such borrowings shall not at any time exceed the amount of the share capital of the Bank;

Provided, further, that no money shall be borrowed under this clause from any person in British India other than a scheduled bank."

In the Statement of Objects and Reasons on this, it was stated that

"It is essential that the Bank should have power to borrow in London in view of the obligation imposed upon it to keep the Secretary of State in funds, and it is necessary also that the Bank should be able to borrow in India so as to facilitate the control of credit. The limitation which this clause provides will prevent the Bank from using its power of borrowing in order to compete with other banks for fixed deposits."

The limitation, which has been put here, is not usually found in acts and charters of other central banks. In practice, I consider it very undesirable that there should be a statutory provision restricting the Bank's power to borrow in London to one month and in amount to the share capital of the Bank. The Bank's duty as Government bankers, to meet the Government of India's obligations in London might necessitate their borrowing at the other end. Their statutory obligation as the principal currency authority may also make it necessary for them to borrow. If this necessity to borrow is to be avoided, large chunks of reserves will have to be permanently located abroad. The limitation will weaken the Reserve Bank in matter of remittances both ways. In any case, there does not seem to be an important enough object in putting this statutory restriction, which appears to have been framed in the interests of the 'Exchange' Banks. The Board of the Reserve Bank may be trusted to realise their responsibilities and not to abuse the power given to them. I, therefore, suggest that the sub-clause be altered by substituting 'one year' for 'one month' and that both the provisos should be omitted.

In section 17, which deals with the business of the Bank, there is a restrictive clause, which confines the purchase, sale and discount of bills by the Reserve Bank, to those which are " drawn and payable in India ". This restriction is, again, conceived in the interests of the ' Exchange ' Banks and it prevents the Reserve Bank from dealing in import bills, which are payable in India, but not drawn here. Such a restriction is not desirable on the authority, which is charged with the maintenance of the exchange. It would also interfere with the development of rupee bills, the possibility of which has been discussed in paragraph 191.

294. Section 44 deals with the maintenance of compulsory cash reserve by banks. The schedule attached to the first bill, as has been already indicated, contained 10 British, 9 foreign, and 7 Indian banks. Later discussion in the Select Committee secured the addition of many more Indian banks. If becoming a member bank were considered the matter either of sentimental privilege or of advantage, there is no doubt that every banking institution would make an effort to get there. There are two questions arising in connection with this. Should there be a compulsory cash reserve? A provision of this kind is not usual with central banks on the continent of Europe. It would enable the Reserve Bank to have a good start off and is, therefore, recommended. As member banks are collectively, under the recommendations made in this report, going to get advantages, which will more than compensate them for this imposition, it is recommended that this provision should be retained. I am, however, opposed to the inclusion of foreign banks in the schedule. If they are precluded from taking Indian deposits in India, there would be no serious disadvantage to the Reserve Bank. If the legislature comes to the calamitous decision to allow them to continue to take such deposits in this country, the position, which will arise, needs to be analysed here. In order to enable the Reserve Bank to get hold of interest-free funds from the banks and to leave the banks no discretion in the matter, deposits should be taken from foreign banks as well, but the privileges extended to the member banks will have to be extended to them. Such a programme would be altogether inconsistent with a banking policy in India, as it is not the strong foreign banks, who need help, but it is existing and new Indian banks. Indian institutions alone could have preferential and exclusive claim to the concentration of Indian funds in the hands of the Reserve Bank of India. Apart from this negation of policy, the position of the Reserve Bank itself may be considered.* The foreign banks, having access to the London money market, are not going to be under the control of the Reserve Bank, particularly when the latter seeks to check the expansion of credit. They have never welcomed a central bank of this kind and it would be futile to expect them to

* The opinions of Mr. J. M. Keynes and Mr. Baster have already been quoted on this point.

fall in line easily.* The choice, which India should give to foreign banks, is deposits and rediscounts in India, or deposits and rediscounts in their home country. If they are allowed to have it both ways, they would effectively prevent the growth of Indian banking on the one hand, and make it very difficult for the Reserve Bank of India to function in practice. The plight of Government with regard to foreign banks in their Treasury Bills dealings in recent times ought to provide a lesson. The central currency and banking authority should not be at the mercy of foreign institutions. Logically, both deposits and rediscounts should be shut out from foreign banks in India.

295. From the apostles of reciprocity I have very little to fear with regard to the measure, which I am suggesting. When some of them trot out the bogey of retaliation, it becomes like a naked person, chaffing another for his immodest clothing! There are people, who would go further in discrimination, than I have suggested above, and would scrutinise the signatures on every bill in order to ensure that Indian resources are not availed of for supporting foreigners. Mr. B. T. Thakur's views in this connection would be of interest.

"The bills which should be admissible for discounts at the bank, should bear at least one Indian signature. Similar limitation should apply to the credit policy of the bank in general. The business of the bank should be primarily to facilitate Indian economic activities. This restriction is imposed on every central bank in every country. As the readers will have seen even, the Bank of England does not extend rediscounting facilities to the Indian

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* Compare the position in Amsterdam.

"Especially in the last few years the Netherlands Bank has repeatedly shown that it seriously desires, as far as its position as the country's central credit institution and principles of sound policy allow it to do so, to co-operate with the other banks in trying to stimulate the Dutch acceptance business. The foundation of the acceptance companies has had the outspoken sympathy of the Netherlands Bank, and the Bank has at once declared itself ready, if so required, to rediscount their bills, provided that it approves of the character of the transactions concerned, and, of course, that the bills comply with the Bank's rules as regards discountability of bills in general. Originally one of these rules was that bills in which foreign interests were involved were eligible for discount only if the discounting bank could prove that the bills also served a Dutch interest. In March, 1925, however, this rule was altered, and the Netherlands Bank now only requires in cases like this that the bank in question in general keeps Dutch interests in view, and that the credits granted are not in conflict with Dutch interests. Very recently the Netherlands Bank has taken still another step. In alteration of the policy which it had hitherto followed in this respect, it decided in March 1926, to admit, on principle, to its discount, bills accepted or indorsed by banking institutions of foreign origin which have been established in the Netherlands after 1914. Under present circumstances this facility applies particularly and practically only to the German banking institutions in Holland. It is subject to certain restrictions among which is the condition that the banks in question must be organized as a firm or body corporate under Dutch Law."—"Foreign Banking Systems", edited by H. Parker Willis and B. H. Beckhart, in the chapter on "The Banking system of Holland", pages 763—764.)

banks. If national considerations do not regulate the credit policy of the bank, it is feared that the same state of affairs, wherein non-Indians get a preponderating portion of financial facilities, as has been the complaint in the case of Presidency and Imperial banks, may be repeated."*

Public opinion of the world will be with India on all occasions when measures are taken for conservation of her own resources and for their development at the hands of her own nationals. Give and take is undoubtedly the law of the world, but, before India can give much, she will have to bring herself up to a much stronger position in the field of banking. Conservative line of advance is, therefore, indicated. The benefits of new machinery and new measures should, therefore, go to Indian institutions only.

296. Section 17, sub-clause (3) reads as follows:—

" The purchase from and sale to scheduled banks and persons approved by the Board, in amounts of not less than the equivalent of one lakh of rupees, of the currencies of such gold standard countries, as may be specified in this behalf by the Governor General in Council by notification in the *Gazette of India*, and of bills of exchange (including treasury bills) drawn in or on any place in any such country, and maturing within ninety days from the date of such purchase, exclusive of days of grace; and the keeping of balances with banks in such countries; "

This relates to the purchase and sale of foreign remittance and the purchase and sale of foreign bills. The Reserve Bank, in my opinion, should have absolute power in law to deal in foreign bills and remittances with persons approved by the Board and in any amounts. The limit of Rs. one lakh has been conceived in the interests of foreign banks. Whatever practice the Reserve Bank board may fix normally, a legal restriction of this kind is not advisable. This clause is further defective, in so far as it will prevent the purchase by the Reserve Bank of 90 days sight bill, the 90 days counting from the presentation, and not from the date of the purchase. Under this clause the Reserve Bank will be free to come in the market and to build up its stock of foreign currencies as and when it likes. It would be advisable for the Reserve Bank not to enter the market merely at gold points, as was urged by foreign banks, but to keep normally in it. Dr. Trip, in stating his views to the Committee, was very emphatic with regard to the need of absolute freedom to the Reserve Bank to strengthen its position in the matter of foreign currencies at any time and in any manner it chose.

297. I recommend an additional sub-clause (16) under clause 17, as follows†—

(16) " The acting as agent for any member bank in any place outside India to sell foreign currency or pay out in foreign currency on its behalf, to collect bills in foreign countries and as its agent, against adequate securities in India, to accept bills drawn on it or on its client."

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* " Organization of Indian Banking," by Thakur, page 379.
† The final sub-clause 16 would become 17.

The object of inserting this is that in the bill as drafted, the contingency was not contemplated. Sub-Clause (13) gives power to the Reserve Bank to act as agent of any other bank, which is the principal authority of a gold standard country. The question of the Reserve Bank acting as agent of member banks and for the purpose for which I am suggesting, never came under review. The foreign "experts" objected to this on the ground that,

"the activities of the Reserve Bank in the field of foreign exchange must on principle be restricted to what is necessary for performing its principal duty, *i.e.*, to keep the currency of the country at par with gold in any case at a value between the upper and the lower gold points. It would be dangerous in our opinion to encroach on this principle by inducing the Reserve Bank to place part of its foreign assets at the disposal of member banks on behalf of their foreign exchange business."

My object in making this recommendation is to encourage Indian joint stock banks to attempt such foreign exchange business, as could come easily within their reach through their own clients, using the organization of the Reserve Bank for this purpose, on condition that the Reserve Bank act merely as agents and take no risk whatsoever. The Reserve Bank would have to get very adequate securities from member banks, on whose behalf they would do this work. The inclusion of the sub-clause in the law would be only permissive and the authorities of the Reserve Bank would be always able to determine whether and when they should do this work. I cannot help thinking that the opposition to this is again in the interests of the foreign banks. The fear that the Reserve Bank's position in the matter of foreign currencies might be weakened, would depend on the extent and frequency of the operations and also whether the Reserve Bank would have prior knowledge of the business coming to it, or whether it would come as a surprise. If the Reserve Bank were in a position to estimate roughly what they might be called upon to do, they would be always able to provide for it. They would always have the option of declining to do anything abnormal, or to do anything at an abnormal moment. Indian joint stock banks are being promised a bankers' bank in the Reserve Bank, but it would be a pity, if the Reserve Bank could not do for its members simple agency work without any risk to itself.

298. In clause 17, dealing with the business of the Bank, there is a limitation with regard to the maturity of bills purchased by the Reserve Bank in the case of agricultural bills of 6 months. It was pointed out to us that this would interfere with the rediscount of agricultural paper of a certain class, and it was suggested that the period of maturity should be extended to nine months. It was similarly suggested that in 17 (2) (b), the restriction of agricultural bills to $\frac{1}{4}$th of the total bills at any particular time might operate, if the total bills in the portfolio of the Reserve Bank were not considerable, in restricting agricultural credit. Central banks in other countries have been known to work satisfactorily without meticulous restrictions of this kind on their discretion, and it is recommended

that the powers of the Reserve Bank of India should not be fettered by law and discretion should be left to the Board to decide what they could do best, consistent with the safety of the institution, to discharge the obligations laid on them.

299. *The Reserve Bank and 'Indigenous' Bankers.*—Against the progress of western banking generally, and foreign banks in particular, there are signs that the indigenous system in India is weakening all round. In many places, it has been wiped out. In other places, where bankers have to reduce their banking activities, they are increasing their trading activities. A strong enough support should, therefore, be given for these banking activities. Any measure, which would strengthen the indigenous system, will be justified not merely on the ground of sentiment, but on the business ground that the private banker in India brings to his task a close local knowledge of things and persons, that his costs of operation are low, and that the Indian clientele would find dealings with him more satisfactory. The following scheme is, therefore, recommended.

Those private bankers, who have a capital of not less than two lakhs of rupees, whether they are taking small or large deposits, or no deposits at all, should be eligible for membership of the Reserve Bank of India, on condition that they agree to confine themselves to banking proper and to withdraw completely from trading activities. They will have to satisfy the Reserve Bank with regard to their activities. They will have to keep such books of account and in such form as the Board of the Reserve Bank may direct, and they will have to submit such periodical statements to the Reserve Bank authorities as may be called for. It was urged that any provision for compulsory deposit of cash with the Reserve Bank should not apply to the private banker. This concession is recommended, more particularly because it has been disclosed that the deposit activities of the private banker have seriously suffered in recent times. Under this scheme the private banker will expect assistance for discounting his bills. It is hoped that the benefit, both of the low rate and of the larger volume of credit, will reach through this class, the Indian commercial community, to whose wants they generally cater. It is also recommended that all, who are enrolled as members of the Reserve Bank, should get the benefit of Bankers Books Evidence Act. It is implied, but it may be stated, that the benefit of cheap remittance facilities available to member banks through the Reserve Bank or otherwise, would be made available to this class.

300. There is an enormous potency for good in this measure, but it would be premature to assess the results. The disintegration of the Indian banking system having started, whether such a measure will effectively stop it, or will only ease the final stage, it is difficult to say. I have a strong feeling that the wealth of this class has been reduced very much. I have, therefore, suggested the limit of two lakhs of rupees, instead of three lakhs, which appealed to my colleagues. A large class, whose resources would be under this limit, will still be left out without any direct assistance from the

Reserve Bank; some of them under the scheme set out in this report will get advantage as guarantors from the land mortgage banks. But, those, in whose activities commercial banking predominates, and who cannot, on account of the limitation of their own capital, enjoy directly the facilities created through the Reserve Bank, would have to get into similar relation with joint stock banks operating in their part of the country. This is one of the strongest arguments in support of the special rediscount rate suggested in paragraph 289. The business of acceptance between the trader and the discounting bank is important in other places in the world. It has to be developed in India. The smaller private banker is eminently fitted to do this through his local knowledge. Sir Osborne Smith, in reply to a question of mine, indicated that he envisaged development on these lines.

" Discount houses (which are more or less essential to a stabilised bill market) might be built up from reliable native bankers of unsullied reputation and with substantial capital, and upon a deposit of a cash guarantee."

This eventuality can materialise only, where banks begin to see in the private banker an ally, a guarantor, and a party, who shares the risk of the whole business with them, and not a competitor.

301. *The Reserve Bank and Government's savings bank deposits.*—From the establishment of the Reserve Bank, it would be noticed that hopes are being entertained for increased volume of credit in the country as well as for reduction of rates in agriculture, trade and industry. In what directions and how, this assistance will reach, has been indicated in different parts of the report. Money will be wanted for these purposes. All useful suggestions are limited by available resources. The question naturally arises, whether the resources of the Reserve Bank, as it was projected in 1928, would be adequate for these objects. The use of currency reserves is very rightly hedged round with many salutary restrictions. Apart from its own capital, the Reserve Bank will have compulsory reserves from member banks, and they will have Government balances. There will be certain funds, *quasi*-public as well as private, on deposit without any interest. These will be the main sources of funds for the Reserve Bank.

The importance of adding to these resources, if possible, has impressed itself on my mind. Simultaneously it was impossible to ignore the general feeling of many witnesses, that in recent times Government borrowings had diverted funds from the use of trade and industry. The general topic relating to Government funds is dealt with in paragraph 363. But the position of the Reserve Bank will be materially strengthened, if Government can show the self-denial and allow the balances from post office savings bank and the sale of postal cash certificates to be transferred to the Reserve Bank and to be made available through it to trade and industry. It would, of course, follow that the Reserve Bank would have to arrange the terms with the post office for the work done and will be responsible for the payment of interest. The benefit to trade could

be expected from the accretion of new money, since moneys already used up by Government from the total outstanding under these two accounts could be only returned by them to the Reserve Bank gradually and subject to their financial convenience. Whether these balances should be merged with the funds of the Reserve Bank as a whole, or should be earmarked for specific purposes, would be a matter for the discretion of the Board. The earmarking will be desirable, because there is some feeling at present in the provinces that funds collected from their savings are being taken away and not being made directly available, to those who are in need of money in these places. The proposal would involve settlement of many details, but it is put forward here in principle, and it is recommended that it should receive close examination. It has much merit, because the power of the Reserve Bank to do real good will depend on the extent of facilities, which it can normally give. The withdrawal of these facilities, it may be noted, is a potent weapon in the hands of the Reserve Bank for the control of the market, and from that point of view also, increase of resources in the hands of the Reserve Bank is very desirable. Consideration, on the other side, would be those of the convenience of public finance. It may be urged that a measure of this kind would tend to raise the rates, at which Government is obliged to borrow, on account of one source of strength to Government finance being eliminated. It may be pointed out that the ultimate strength of Government finance lies in the improvement of trade and industry and in the credit facilities available to them, which the Reserve Bank is expected to create and to add to. The several measures suggested in this report will collectively strengthen the finances of Government in so many directions. It is, therefore, hoped that this measure would be accepted.

302. *Reserve Bank and Bullion.*—The Reserve Bank bill sought to impose obligations for the purchase and sale of gold bullion under certain conditions and on certain terms.* In order to check the

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* "The currency authority will be statutorily required to hold reserves sufficient to enable it in all circumstances to sell gold for export when the rate of exchange falls to the point at which export of gold is required in order to maintain the fixed equation of 8·4751 grains of gold per rupee, and to import gold and buy gold otherwise imported whenever exchange rises to the point at which the import of gold is required to prevent the rupee from rising beyond the equivalent of 8·4751 grains per rupee, that is, to the gold import point, or roughly 1s. $6\frac{3}{16}$d. per rupee. The currency authority will buy gold tendered to it at any time by giving one rupee for every 8·4751 grains offered, but it will not be compelled to sell gold for non-currency purposes at a rate which throws upon the taxpayer any portion of the expenses of import."

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"If the currency authority were required at all times to give 400 oz. of gold in exchange for an equivalent in legal tender at par, whatever the rate of exchange between the rupee and other gold standard currencies, it would be the cheapest market for gold in India for non-currency purposes at all times when the rate of exchange was below the gold import point. Either therefore it would have to try and keep the rate of exchange permanently at the gold import point, which would be undesirable in many ways, and would certainly tend to keep money tight in India, or it would have continually to import gold for non-currency requirements at the expense of the taxpayer and to the detriment of the effective working of the Indian gold bullion market. The

tendency of hoarding gold bullion in this country, the Hilton-Young Commission recommended the issue of gold cash certificates. This is a measure, which should be adopted, as soon as the Reserve Bank is established. The Bank will in any case carry a stock of gold as part of its reserve. It would have to carry more gold in relation to the outstanding gold certificates, but there will be an economy, on the expectation that holders of certificates will not always ask for gold, but will in some cases renew the certificates. The question of gold is of supreme importance to the Reserve Bank of India, not merely from the point of view making internal currency convertible into gold, as and when the conditions permit, but primarily from the point of view of being able in times of difficulty to discharge India's foreign obligations without the exchange being weakened. The ability of the Reserve Bank to secure fixity of exchange would depend largely on credit, and its credit will depend largely on the amount of visible gold it carries, no matter on whose account and how. The Bank of England has in the past derived strength from gold earmarked for India, because it was the lump figure of the gold with the Bank of England, which came in consideration in foreign markets.*

303. The total imports of gold in India have attracted much notice. They were as follows:—

Year.	From and to foreign ports.		
	Imports.	Exports	Net imports.
	Rs.	Rs.	Rs.
1918-19 . .	2,27,63,000	7,84,01,000	—5,56,38,000
1919-20 . .	48,25,16,000	12,92,13,000	35,33,03,000
1920-21 . .	23,57,38,000	21,46,56,000	2,10,82,000
1921-22 . .	13,82,04,000	16,68,49,000	—2,86,45,000
1922-23 . .	41,32,39,000	13,31,000	41,19,08,000
1923-24 . .	29,25,32,000	6,68,000	29,18,64,000
1924-25 . .	74,28,98,000	36,32,000	73,92,66,000
1925-26 . .	35,22,99,000	37,53,000	34,85,46,000
1926-27 . .	19,50,12,000	10,07,000	19,40,05,000
1927-28 . .	18,13,44,000	3,44,000	18,10,00,000

Commission therefore propose that the price charged for gold by the currency authority should include an allowance for the cost of importing gold, and should be so fixed as to set the currency authority free from the task of supplying gold for non-monetary purposes."—(Sir Basil Blackett's Delhi University Speech, 1926.)

* "A higher proportion of *gold* kept in London may, on the other hand, apparently enable the Empire Central Banks to exert considerable influence upon the policy of the Bank of England, whose reserve ratio and therefore discount policy, might be exposed to interference, due, for example, to large gold exports for urgent use overseas. And if this sort of influence could be brought to bear wilfully and very powerfully, it might so affect bank-rate as to alter the margin between home and overseas money rates and induce or repress the flow of funds to the overseas money rates and induce or repress the flow of funds to the overseas centre. But this is hardly likely to occur, because in general more than half of the gold reserves available will be held and used in the country where they belong and the rest will not be large

From the moment of the purchase of the gold, as the trade is organised at present, the gold remains in private hands. It is in the hands of the importing bank or the bank of the private importer, generally a foreign institution. After it arrives in this country, sometimes it is taken delivery of and held by the importer, and sometimes it becomes the subject of a loan and is held as security by a bank. Its distribution in small quantities for the actual user upcountry then goes on, but there is a lapse of time. It was stated to us in evidence that this period would be anything from two to four months, but would vary at different centres. Roughly therefore, taking it from the moment of purchase in a foreign centre, there will be anything from 25 to 33 per cent. of the normal import in private hands. If this were in the hands of the Reserve Bank, it would strengthen their gold position enormously. The gold is for consumption in India and it is paid for by the people of this country. It would, therefore, be proper, if the full benefit of it, at least prior to its passing out in the interior, were retained by the central banking institution.

The bill of 1928 gave power to the Reserve Bank to buy and import bullion on its own account. It also authorised the Bank to give loans against gold bullion. I would go one step further and would recommend that the Reserve Bank of India should have the monopoly of the importation of gold for being sold in the market as bullion.

As I am opposed to the creation of monopolies in the banking field generally, I may say that I have not come to this conclusion lightly. A strong Reserve Bank on sure foundations has been accepted as a desideratum, and every avenue must be explored, which will give strength to the Reserve Bank.

It will increase the visible stock of gold with the Reserve Bank by amounts, which are in the course of purchase, in transit, or in storage, or, to express it differently, by making the continuous flow of gold bullion in India through a single channel, the Reserve Bank would have a certain additional amount in hand at any particular moment, which they would not have had but for this provision. It will give them strength not merely in their gold position, but also with regard to their obligation in connection with Government remittance and in connection with the maintenance of the exchange.

304. Opposition will undoubtedly be raised to this proposal by the ' Exchange ' Banks, who derive profit from this trade and

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enough to produce much effect. Further, the Currency and Bank Notes Act of 1928 provides for discretionary expansion of the Fiduciary Issue in contingencies of this sort. The size of and the movements in the Indian *Gold Standard Reserve* (an extreme case) are an admittedly important factor in money market conditions, but the adoption in India of the Gold Bullion Standard and the operation in England of the 1928 Act, will relieve the situation considerably and the subsequent London gold holdings of either the Indian or the Dominion " Central " banks should not normally create disturbing influences." (Baster, " Imperial Banks " page 219).

strength from remittance on gold account, but this will be interested opposition. Many questions will be raised with regard to the detailed operation of this monopoly. The monopoly would be only with regard to importation for resale as bullion in this country. It would only stop the passage of imported bullion into the market except through the Reserve Bank. Many detailed questions, such as the manner and method of sale, the facilities which large bullion dealers in the country should receive, and the relation in which they should stand with the Reserve Bank, the price at which gold would be sold, and the power to the Reserve Bank to vary this price in the event of an exchange crisis and the like, would have to be settled. I, therefore, recommend that, if *primâ facie* the object, which is sought in this provision, of strengthening the Reserve Bank both with regard to their gold position and in the exchange market, is approved, the Finance Department should invite a conference of important bullion interests in the country to make arrangements, which, consistent with this object, interfere as little as possible with their trade.

305. *Reserve Bank and Remittances.*—The ideal is to eliminate remittance charges altogether. India is still far from this but this is an accomplished fact elsewhere in the world. Not only has free remittance been established in the United Kingdom but it is being suggested by responsible people for the whole empire, as will be seen from the following:

" The project in its modern form was first mooted (very appropriately) by Mr. Goodenough, Chairman of Barclay's Bank, in his Annual Speech in 1918.

' Just as in the past there were questions of exchange between London and the various cities of the kingdom which by the expansion of our banking organization were swept away to the greater advantage of trade within the kingdom . . . . . so should we now recognize that the extension of banking organization and the maintenance of fixed rates of exchange within the British Empire will give to our Dominions and Colonies a substantial preference and would serve to consolidate and promote trade within the Empire. '

" This was supported by Professor Foxwell. ' Mr. Goodenough is really only asking us to go a little further on well-proved lines. He proposes to extend to the whole Empire the service of free remittance, which the later development of our banking system has made so perfect within the United Kingdom.' The recent amalgamations, giving English joint-stock banks control over institutions, operating in all parts of the Empire seem to have made this more practicable. Fixed exchange would certainly strengthen and greatly facilitate trading relationships within the Empire and it would probably have the further not so obvious but none the less important effect of stimulating the movement of floating capital to and from the home country."*

* " The Imperial Banks ", by Baster, page 252.

The remittance charges on the flow of funds from one centre to another offer a serious interference to the mobility of loanable capital. It is the remittance charges, which would to some extent account for differences in interest rates on short-term loans for the same class of borrowers prevailing at difference places. The Imperial Bank has rendered valuable service in this direction at the instance of Government.* The prevailing rates in India are still as follows:—

For amounts of Rs. 10,000 and over . .	$\frac{1}{16}$ Per cent.
For amounts exceeding Rs. 1,000 but less than Rs. 10,000	$\frac{1}{8}$,,
For amounts less than Rs. 1,000 . . .	$\frac{1}{4}$,,

and for banks (this does not include indigenous bankers) at $\frac{1}{32}$ per cent. for Rs. 10,000 and over, between places where they have branches.

The problem is more difficult in India than elsewhere, because of the distances, where it comes to an actual transfer of funds. As the use of credit instruments grows, the difficulties of the problem would be seriously reduced. As the first step in the meanwhile, it is recommended that the Reserve Bank should undertake in practice the obligation in the case of member banks and bankers, who have accounts with it, to transfer funds from one branch of the Reserve Bank to another free of charge. This is, of course, with regard to transfer by letter.

It is deplorable that the Imperial Bank, which gave this facility to its clients, has withdrawn it, and the other banks, who follow the model of the Imperial Bank, are also charging their customers. Whether the inspiration came from the post office, which has vested interests in the money order business, or whether it was an independent decision by the Imperial Bank on grounds of their own business, the Committee had no means of knowing. The public have been deprived of a very valuable convenience and a retrograde step has been taken in banking by the withdrawal of these facilities by the Imperial Bank. It should be the task of the Reserve Bank to see that these facilities are restored. The privileges, which the Reserve Bank would give to their member banks, might to some extent be transferred by these banks to their own clients. Whoever does

* "The last Report of the Controller of Currency (pages 24—25) shows how striking has been the recent increase in the use of these forms of remittance. The facilities offered consist in the first place of supply bills which are bills of exchange drawn by treasury officers or Deputy Controllers of the Currency on other treasuries, and paid out of treasury balances. The system is cheap and practical and works well for the remittance of small sums. Remittance Transfer Receipts and Bank Post Bills are used for the remittance of funds for Government or *quasi*-Government purposes, the bank post bills being used for payment of land revenue. The Imperial Bank is at present considering whether this system, which is at present confined to Bengal, might be extended throughout India."—(Sir Basil Blackett's Delhi University Speech, 1925.)

agency business for the Reserve Bank, should, however, have this obligation imposed on him as part of the contract for agency.

306. *Reserve Bank and the Treasury work.*—It has been suggested that the Imperial Bank will be doing this work and is most fitted to do this. In fact it was put forward that it alone could do this. It was also suggested that a special act would be necessary even after the Reserve Bank was established, because the Imperial Bank would be doing this work. In this matter my view is that the Reserve Bank authorities would be the best parties to fix up suitable arrangements for conducting their obligations under their Act and for choosing such agents as they like. Amongst such agents may be the Imperial Bank in many places, if suitable terms could be arranged. Amongst such agents may also be joint stock banks at many places including places, where there are branches of the Imperial Bank. Sir Osborne Smith admitted in his evidence before us, that if a joint stock bank acted as agents of the Reserve Bank in one or more places, there was no need on account of its acting as agent to have a special constitution or a special act.

Since the Committee discussed, not the terms, on which the Imperial Bank could do agency work for the Reserve Bank, but the inducement to the Imperial Bank to enter the field of foreign exchange business in the form of agency work of the Reserve Bank, it is obvious that the agency work of the Reserve Bank is sought after and is considered attractive. All fields will be open to the Imperial Bank, when it is released from its restrictions. It is an idle speculation for any one as well as for our Committee, as to what this premier institution in India will do. It is altogether futile to seek to lay down the law and it is equally futile to determine the inducements, on which its activities could be guided in one or the other channel. If the Imperial Bank after its very strong position still requires any inducements to do any work, which is not unprofitable, it may be said that the outlook for Indian banking in all directions is very poor indeed. On the ground that the Imperial Bank is strong and mature, I urge that it should be self-reliant. On the ground that it is dangerous to create vested interests, I recommend that no exclusive privileges of any kind should be given to the Imperial Bank. Consideration to its reasonable representation as the premier banking institution in India is one thing, but exclusive privileges, which are not open to other banks, is an evil to be avoided.

The Reserve Bank authorities should be left entirely free to fix up suitable agency arrangement on suitable terms. That such arrangement should be for twenty-five years, as was provided in the draft bill, which came before the Assembly, is opposed to all considerations of business as well as public policy.

307. *Organization of the Reserve Bank.*—It is recommended that the Reserve Bank should have a branch at the headquarters of each province, or at least one place in each province, which may be of outstanding commercial importance. A desire in this connection

has been expressed by the United Provinces Committee,* and such a measure is sure to meet with general public approval. The Reserve Bank itself might find this an administrative convenience, which would more than compensate it for the cost. From the public point of view, it would bring rediscount, remittance and other benefits in the interior, particularly in the case of the private banker. Rediscount facilities could not otherwise be extended to parties, who have no establishment, where the office of the Reserve Bank is. It would be obvious that the granting of rediscount and other facilities through the agents of the Reserve Bank raises many difficult questions. It is essential that, if the Reserve Bank is to play a real part, it should come in close direct contact with parties in the interior and its information with regard to them should be first hand. Several important functions are being recommended by the Central Banking Committee to be placed in the hands of the Reserve Bank. For example, they are being made the authority, whose approval would have to be secured for opening a branch in the interior by any bank. Provinces in India are large, and in the event of Federation, they might become larger by the inclusion of those Indian states, which fall geographically and economically inside them. By increasing the number of branches, so as to give at least one to each province, instead of having them confined to the ports and to a small number, as suggested in the bill of 1928, the gain from the banking point of view would be real, but the Reserve Bank might also derive strength in their function as currency authority by this measure.

The work of the Reserve Bank, as outlined in this chapter, would need not only the statutory separation of issue and banking departments, but the establishment of several departments on the banking side, attending to their respective task and yet properly co-ordinated with one another. In the matter of agriculture, there will be dealings with the co-operative banks and the co-operative movement generally. There will be the whole task of the creation of land mortgage debentures and of the transmission of these funds through suitable institutions, as outlined in chapter VI. There will be the ordinary relationship with the Imperial and other joint stock banks. There will be the ordinary watchfulness over the exchange, and the special work in connection with the agency of Indian joint stock banks, as suggested, and the foreign exchange work either directly or through a special institution set up. There will be the administration of the savings bank deposits. There will be the entire question of the importation of gold bullion and its distribution to the market. These points are stated here not with a view to present an exhaustive scheme, but with a view to give a general indication of what is expected of the Reserve Bank and what it can achieve.

* The Committee contemplate that at the top, there should be some type of central bank such as that recommended by the Currency Commission. There should be a branch of the bank in every province. Since it must necessarily assume control of all treasuries, sub-treasuries and currency chests, it must have an agency or sub-agency in every district.—(U. P. 481.)

308. It is suggested that the Reserve Bank bill should be redrafted, before it is considered by the legislature. Important events have occurred in the world since 1927, when it was first introduced. There has been a new law in Holland, which requires foreign banks to be registered under the Dutch law, or forego the privilege of a rediscount. There has been a new commission on the operation of the South African Bank. There have been somewhat tragic developments in Australia. There has been a very great crisis in the United States, in the wake of which all countries in the world have been drawn directly or indirectly. There is the general scramble for gold. There has been great accumulation of gold by the Bank of France, which, non-French critics are regarding as redundant. In India itself, there have been marked changes in many directions. The period of contract with the Imperial Bank has ended. Above all, there has been the survey of banking conditions at the hands of Provincial Committees and the Central Banking Committee, which has brought out, amongst other things, that the banking functions of the Reserve Bank of India did not receive an attention commensurate with the importance of the subject. It has further been brought out that some of the restrictive provisions were not only unusual, but were put in, in the interests of foreign-controlled banks. It is hoped that it will be borne in mind that the Reserve Bank of India should be constructed in a manner, which will satisfy the needs of India.

CHAPTER XVIII.

BANKING NEEDS OF INDUSTRY.

309. How much finance industry in India will require, how much of this will be long period and how much for current needs, how much of this can come from existing banks, and whether it would be necessary to set up special institutions for this purpose, are questions, which cannot be answered without some idea of the general conditions, in which industry operates in India. The success of industry depends on many factors, of which adequate finance is one, but the cause of weakness and failure of Indian enterprise in several directions may be found in the inability of the entrepreneur to secure on reasonable terms, the use of funds required.

The attitude of Government to nascent enterprise has a very direct influence on the growth of industry. The state represents the final and superlative power in a community. It can use this power to destroy industry, as was done in the days of the East India Company in India. It can refuse to use this power and see local efforts destroyed by unfair competition from outside. It is a great thing, if there is even the hope that, in case of need, industry could look up to the state for protection against unfair competition of foreigners, or against any other temporary phenomenon, destroying the earning capacity in the country, not only of the weakest section of the industry, but of those, who can by all tests claim to be well organized. Where there is thus an organic relation between industry and state, where there is a living response from the state to the needs of industry, where the machinery for securing detailed examination of such needs is promptly available, where public opinion is enlightened enough to support a definite industrial policy, and where the administrative machine acts quickly, without the dilatoriness associated with red tape, the growth of industry may be assured, if other conditions are favourable.

310. Whether in India the state evinces this living concern for the growth of industrial enterprise, is a question, that cannot be answered in this report. In the past, the Indian state policy was undoubtedly dominated by ideas of free trade, which also coincided with the comfortable notion of India producing the raw materials and affording a standing and permanent market for the manufactures of the United Kingdom. So vehement and real was the insistence on such reservation, that the Government of India, in their efforts to manufacture ammunition in this country for their own use and merely out of regard to military considerations of

defence and self-sufficiency, found themselves faced with truculent agitation from Birmingham. As industry controlled by non-Indians grew, the latter were able to secure increasing attention from Government, in those directions, where they experienced difficulties. The Industrial Commission was appointed in 1916. It led to many administrative measures including the creation of new posts, the account of which in various provinces is contained in the Provincial Committees' reports. There will be diverse opinions as to, whether the results produced are commensurate to the expenditure incurred and the efforts made. The most direct expression of state policy in regard to industry as embodied in the various protective measures passed since 1924, is in the acceptance of the policy of discriminating protection,—a policy, the absolute failure of which to achieve results, has been repeatedly noted. It was referred to by no less a party than Sir Padamji Ginwala, who, by his long association with the Tariff Board, which is the means adopted for implementing this policy in specific cases, could speak with unassailable authority. There is now little doubt, from the purely economic point of view, that the so-called protective measures adopted by Government have had the result, and were possibly projected with the intention, of securing a large accession of revenue under the head of customs, and that they have invariably fallen short of the primary aim of protective policy, which is to give such support to existing industries as to secure their expansion, as to attract new capital in the field and new ventures, and to create internal competition in the shortest period of time. It is by means of this internal competition and by a careful watch that pooling and price-agreements are not made, that the interests of the consumer would be secured. Instead, the consumer has loomed large in all these discussions right at the beginning. No greater misdirection of effort could be seen in a country, where, according to the Industrial Commission, every other requirement for industrial self-sufficiency was present. Those who noticed the possibilities of new industries, that required assistance in their pioneer and initial effort, could not approach the central government at all. With regard to others, have Government always and promptly referred to the Tariff Board applications for protection? Have the Tariff Board always acted quickly? Have Government accepted the advice of the Tariff Board in all cases? Have they in all cases even published the report of the Tariff Board? Have they ever erred on the side of giving too much protection and really fattening any particular industry, to which they claim to have given protection, or, have they always erred on the other side? Has official lead to non-official opinion been always sound, or, has it generally sought out the divergent groups of public opinion and set them one against the other with the result, that proposals, which initially did not go far enough, sometimes emerged in an attenuated form? This report is not the place to answer these questions. The absence of an industrial policy is much more noticeable in India than its presence. Rightly or wrongly, Indian opinion firmly holds that the explanation for this is to be found in the overwhelming influence,

which foreign vested interests enjoy with those, who govern and direct this policy.*

The heavy exports of India have to be carried away in ships, which have to come back here, and the problem of return freight for such ships has set shipping interests, largely British, dead against the growth of Indian industry. This would explain, why protective measures became revenue measures and did not go far enough, so as to involve increased production, because increased production would have taken away freight. It would also have infringed on the profits of parties concerned in the trade, as well as on the earnings of insurance companies and foreign banks engaged in handling this traffic. The entire bias of vested interests in foreign banks has been against the growth of local manufacture. The links of such opinion with Government, through the Chambers of Commerce in India and in England and through the 'City' opinion at Whitehall, have already been indicated elsewhere. The opposition to the growth of industry in India by European trade, including shipping, insurance and banks, has been felt sometimes even by foreign industrial enterprise in India. It has been very real.

311. *Why industry in India in Indian hands is not extensive.*— It becomes necessary to mention some of these factors to counteract the mischievous effect of the explanations usually given, for the fact that India is backward in industry and that the share of Indians in such industry as exists in the country is very small. The explanation takes many forms. The dearth of capital in India is mentioned. The whole question of savings is examined in another section, but one would think it extraordinary that a country, which Sir Basil Blackett expected to be an important creditor country capable of sending capital abroad, should, by other people on other occasions, be characterised as lacking in capital. 'Dearth of capital' is a complaint even in rich countries and so postulated, it is only a relative truth applicable to all countries. It is further said that Indian capital is shy. Neither the dearth of capital, nor its shyness is evident, if the amount of Indian money invested in various quarters and lost since 1900 is calculated. Human nature amongst those, who possess a surplus and who seek investment, is not different in India, from what it is elsewhere, and the same considerations of safety as well as higher return appeal

* The existence of this feeling and the supreme need of absolutely satisfying Indian sentiment by the transfer of control in the hands of ministers responsible to the Indian legislature, has been recognised even by the Government of India in their Despatch on Constitutional Reforms, 1930.

"Even under the present constitution an attempt has been made to meet this demand (para. 182). * * * So long as the power to direct policy in the economic sphere rests with the agents of Parliament, it will be impossible, we fear, to combat the suspicion, however unjust, that the interests of British trade weigh more with the Government than the interests of India. In itself we regard this as a cogent reason why commercial subjects should in future be administered in accordance with the views of the legislature (para. 188).

to the Indian as to the foreigner. The attempt to ascribe to the Indian in business matters, a different psychology is generally made to divert attention from, and to conceal the privileged position of the foreigner. Starting from the fallacy, that there is dearth of capital in India, it is usual to urge the desirability of getting foreign capital and of leaving the field free for such foreign capital, so that it may not cease to flow. The question of foreign capital in India is so vast that it can hardly be dealt with here. How much of the foreign capital represents savings prior to the initiation of the enterprise and is, therefore, real, and how much of it represents the capitalised value of opportunities and the reinvestment of large and blind profits, which some of these enterprises were enabled to make, it would be difficult to say. Under what conditions the entry of foreign capital in a country is safe for that country, has to be determined, and the direct and indirect consequences of the creation of vested interests have to be studied.* In any case, it would be preposterous to allow foreign capital to enter in preference to Indian capital. It would be a recondite examination, if one were to ascertain how much Indian capital, there is as a matter of fact in enterprises, which are considered foreign, and whether the larger problem is not of foreign control rather than of foreign capital.

312. Apart from these factors, the explanation of the paucity of industry under Indian control in India is sought in the backwardness of the Indian, in his lack of enterprise and in his peculiar social conditions. Adverse critics have not even stopped at this, but have dwelt on the unreliability and dishonesty, the slothfulness and the carelessness of the Indian. While there may be room for moral improvement of a community at all times and in all countries, and for improved outlook as well as for increased efficiency, an exaggerated emphasis on such facts would neither reflect a true state of affairs, nor would it serve any useful purpose, where more direct economic reasons are available. Where industry under Indian control has grown, it has grown vigorously and it has survived many crises. A study of its inception and progress at the hands of the same Indians, who share the mental formation and the social background of the nation, should dispel any unnecessary pessimism and should prove the unreliability of this particular line of attack. Indians have shown enterprise in many directions and are showing it, but the success of an enterprise lies, as much in the constructive impulse and effort of the individual, as in the helpfulness and general appraisement of the atmosphere around him and the conditions, in which he has to work. To give only one illustration, it may be found, how the chilling effect of neglect and discouragement from the top can touch an industrial venture at every point of its contact with authority in the customs, railways, income-tax, in the administration of factory laws and boiler inspection, in municipal and other assessment, in the purchase of the

* "The vested interests created by external capital have a tendency to acquire enormous political influence, which is usually exercised for the purpose of maintaining the *status quo* and of vigorously resisting any political progress."—[Para. 17 (*c*).]—(Report of the External Capital Committee.)

products for public requirements and public departments, in the arrangement of those numerous details regarding land, sidings, mineral and other concessions, and in a thousand and one ways. Whether Indian enterprise in these respects has received the same facility, the same courtesy and the same consideration as foreign enterprise, is a question, which I shall not answer at this place.

The formulation of a definite industrial policy is called for with a clear reference to Indian industry under Indian control. It is only after this, that in various directions, the administrative machine and its human counterpart can adjust itself, so as to make the path of industry smoother. Failures of industries in the past have not only involved large amounts of public money, but large sums, which went out for the purchase of machinery and equipment and plant from India. That such equipment and plant in some cases remained unused and was ultimately sold as scrap, shows the extent of existing disorganization in the country. All this has a most direct bearing on the flow of capital in industry. Until it is recognised that the prosperity of the community, which includes scope for employment, is bound up with successful enterprise in the country, and that in the failure of such enterprise, not only the parties directly concerned, but the community lose something, no improvements will be forthcoming. Until then industry must find it difficult to break through the perversion of economic doctrine, which has taken place. When the railways of the country are asked to be run on commercial lines, what is desired is the elimination of red tape and unbusinesslike methods in their accounts and administrations. Instead of this, we find the railways pleading this as an excuse, not only against purchase of locally made articles but against all suggestions of readjustment of rates, calculated to secure advantage either to Indian agriculture or to Indian industry. The railway rates policy, already criticised in many places, will be found to be based on the inevitability of foreign trade, almost to the extent of sharing the anxiety of foreign business interests for the maintenance of that trade. It is not yet recognised in high quarters that the growth of industries in India and the retention of the profits of these industries, would react beneficently on the railways themselves, and that to that extent, the interests of the Indian railways are not identical with foreign interests in trade, shipping, insurance, and banking.

313. *Relation of industry and capital.*—The importance of the growth of industry, as it would react on the available capital of the country, has to be elucidated. It has been estimated that a motor car, for which the Indian purchaser pays Rs. 5,000, has primary raw material going into the manufacture of its various components, such as wood, steel, rubber, copper, ingredients of glass and paint, leather, and chemicals, of Rs. 50. Many of these are produced in India. The balance, therefore, represents the multiple manufacturing cost, trade, transporting, retailing and other profits, including the payment for the labour involved. That not merely in cars but in a million manufactured articles, India should continue to

pay all this and create not only employment elsewhere, but give rise to profits, savings and capital, which India needs so much for herself, is a position, which can be accepted only so far as and when it is unavoidable. That it is avoidable by a more active state policy, which would co-ordinate Indian efforts, has been the feeling in the country. In such co-ordination, the availability of finance in the initial stages is postulated. Once the cycle is completed, by which profits begin to be retained in this country, efforts in this direction would be needed less and less, but they could not be slackened, until this result is achieved.

314. *Concerted action.*—The inspiration for special industrial banks, which are suggested elsewhere, in conformity with the general opinion of witnesses as well as Provincial Committees, is undoubtedly found in Japan, but one has to search a little beyond the mere machinery of finance or beyond the great patriotism of the Japanese people, for the remarkable success, which they have achieved in the industrial field. I would like to suggest that the success of Japan was due to covering the whole field and taking all correlated measures, at the same time, creating enthusiasm and concerted effort on the part of many people and securing from all these people, the adherence to and proper functioning of the various measures taken. Thus, it is important, that all those people, who are producing raw material and exporting it, should feel that a market is being created for them nearer at home. The railway system of the country and those who direct it, must feel that in the movement of raw material to the place of manufacture and the radiation of the finished product therefrom, potential growth of traffic is involved. Even the consumer, who has to pay a high price on account of the operation of the heavy tariff system * for the time being, should feel that it is better for the money to remain in India and to circulate therefrom than for the profits on such efforts to go perpetually out of the country. The stock exchange must support and sympathise with these measures, as the number of securities quoted on their exchange would increase and the turnover would be enlarged. The investor would have a more varied choice and his position would become secure. Banks would be interested in the matter, as an industry creates more deposits and loans than foreign trade of equal amount. Government's interest in the growth of industry is great. The outlay on famine prevention and relief would be materially reduced. Apart from

* The only heavy tariff, which has resulted in building up industry, is the so-called revenue tariff on matches, which has brought into existence an alien enterprise. The conditions, under which this enterprise has emerged in India, and the assistance and co-operation, which it has secured from Indian Government officials, including those who had retired, would, in the interests of India, merit a public investigation. The Indian tariff system in other respects can hardly be called a 'system'. It is most unscientific, involving the operation of contradictory principles. It has been built up haphazard and allowed to spread, wherever the Finance Member could cast a greedy eye. The effects on foreign interests have been much more closely examined before and after the imposition of each tariff than the effects on Indian industry.

increase in the gross earnings of railways, they would have a larger taxable surplus in the country. The state would get security services during the war and greater self-sufficiency in the event of the country being cut off from foreign supply. The people would get more self-reliance. There would be more inventions and more adaptations, there would be increased employment, and the wealth of the country would be better utilised for the benefit of the people of the country.

Such a policy and programme in India might appear to be extravagant, but they are perfectly consistent with the highest dictum of caution and conservatism. When what is desirable is indicated, it does not necessarily follow that it can be, or should be, attempted in one day. But what must be avoided in India are isolated and uncorrelated efforts, local policies often contradictory to one another, and limited enquiries with meagre results. A programme has to be created and to be adhered to. The present attitude has to be negatived. A free field and minimum interference by Government has involved the concentration of large resources in foreign hands and the consequent creation of a mortgage on the wealth of this country.

A definite thread in the Indian evidence, that was tendered before us, could be traced all along, urging the need not only for improved finance, but for what was conveniently lumped as a 'change of fiscal policy'. It was also clear that the Indian community, which the witnesses represented, did not expect this result till the formulation and administration of industrial policy was in the hands of a minister responsible to the Indian legislature, not merely in the provinces, but at the centre. While no recommendation by the Central Banking Committee is possible on this subject, an assumption to this effect was made in the recommendations, which were formulated. It was felt that, in order to carry out these recommendations, these conditions would be essential. I warmly subscribe to that assumption.

315. *Are existing facilities adequate?*—The most marked divergence of views appeared in reply to the question, whether financial facilities to industrial concerns were adequate. The question, it will be noticed, was far-reaching, as no remedial measures are called for, where the present situation is satisfactory. The European witnesses, who came before us on behalf of the European Chambers of Commerce, the Exchange Banks Association, and the Imperial Bank of India, were all of opinion that industries floated on sound lines and showing a reasonable promise of success had not, to their knowledge, been unable to obtain the financial assistance necessary. The representatives of European Chambers of Commerce admitted that their knowledge did not go beyond the larger presidency towns and the experience of their members. If European industry in this country has to face no difficulty in securing financial assistance from existing banks, either the complaint from the Indian quarter is untrue or grossly exaggerated, because Indian concerns of a like kind have the same kind of security to offer. If the securities

are the same, the difference can only arise from the personal element. It may be due to the lack of touch between the Indian customers and the foreign managed and foreign controlled banks. It may be also due to the normal and social association between European customers and foreign managers. It may be also due to the fact that European bank managers may be deriving their information *re* Indian business houses from their European customers, who are rivals. This is a psychological factor, but information from a rival source is generally disparaging. A solution would have to be found for this, but no solution could be found, so long as the discussion is confined to whether preference of Europeans at the hands of European bank managers in India exists, or it does not exist. That it exists in the matter of coal mines and tea gardens owned by Indians, has been the definite subject matter of evidence. With regard to other industries, the belief about such discrimination held by responsible representatives of Indian Chambers of Commerce cannot be altogether set aside.

A solution of this could not be found on the mere truism that long-period finance cannot be given from short-period deposits. The complaint is with regard to the same kind of finance as is at present made available by banks to European industries. It could be only sustained in the comparison of like with like.

It cannot be said that Indian concerns start with a greater initial shortage of finance than European concerns. I have no desire to emphasise the factor of racial preference, but it was mentioned so frequently in evidence, that its mention in the report could not be avoided. The Imperial Bank authorities, who are primarily concerned with loans to industries in India and against whom the complaint was directed, gave before the Hilton-Young Commission particulars of their advances to Indians and Europeans and placed before our Committee a list of industries, to which the Imperial Bank had given finance.

316. The methods of operation of banks would, to some extent, explain the paucity of capital available for industrial concerns. Banks, taken as a whole, have a certain limit of funds in their hands, which they seek to invest to the best advantage. The general trade demand takes the lion's share. When they are not invested in response to demands other than those of industry, if it is a question of preference, such concerns as the bank manager considers sound and reliable, will get the accommodation. Whether European concerns predominate amongst those, who get the accommodation, and Indian concerns amongst those that are left out, is a question, for the reply to which material evidence did not come before us.

Banks in India may be said on the whole to be working very conservatively, which, from the point of view of industrial borrowers, might be expressed as the failure of the banks as a whole, to assess their credit-worthiness. It is possible that some banks have lost on loans to industry through defective valuation, but it would be reprehensible, if, instead of improving their own machinery

of valuation, banks were to curtail credit. The security, which an industrial concern has to offer, consists primarily of the block. The value of the block deteriorates, when it is used, and it sometimes deteriorates more, when it is not used. Between the original value and replacement value and knock-down value, there will be a great difference. Even if a suitable margin is kept by a bank, it has to face both the cost and the delay in realising the value of a plant, and the value so realised may be altogether disproportionate either to the book value of the plant or to any reasonable valuation put on it. Where the bank takes an extremely pessimistic outlook and either declines to lend against the block, or offers a very small loan, the position may be correct from the point of view of the bank, but is extremely hard and unpromising from the point of view of the industrialist.

317. Where money is required for extensions, the block is, and should be, the proper security, but finer distinctions do not appear to be made in India. Great stress has been put in recent times with regard to liquid stocks, and this item is popular with banks as the basis for loans to industry. Even in this case, there is a certain amount of stock, which is as much wedded to the place as the plant, and, that is the stock in process. The stock of raw material, in the form in which it becomes the subject matter of dealings in the markets, and the stock of finished goods are visible items and offer no difficuty between the bank and its customers. The Imperial Bank has taken the lead, and the other banks have followed, in fixing the margin for such stock on a basis of valuation, which also the bank itself fixes, and there is again a complaint that this margin is rather high.

Both internal and foreign trade of India is growing and in so far as trade and industry have both to go to the same banks, there is a perpetual and potential competition, in which industry seems to get the worst of it. One solution lies in increasing the banking resources of the country as a whole and in utilising them better and more effectively than at present. It lies in the direction of greater use of credit instruments, instead of cash in the districts, so that, if trade is handled with less call on banks, more money might be available for industry. At the moment, banks cannot be blamed, if they play for safety. With the general improvement in the prospects of industry, would improve the confidence not merely of the permanent investor, but also of banks, who would consider industrial concerns as safer borrowers than they appear now.

318. *Finance for industries from existing banks.*—The above discussion has proceeded on the basis, that existing banks are financing industry. That they are financing industry, has not been denied. On the contrary, it has been claimed by the Imperial Bank, that they are doing so. If proper figures could be secured, it will be found that banks in India (excluding foreign banks) have anticipated and gone beyond the recommendation, which is being made, that they could lend out to industry their own capital, *i.e.*, the equivalent of their share capital and reserve. It was, however, urged that banks could, and should, only lend for short-

period, and, as the bulk of the demand for finance on behalf of industry was not for short period, banks could not go into it with safety to themselves. I have already referred in paragraph 138 how the so-called short-period loans by banks are in reality, taking the banking system as a whole and the trade as a whole, not short-period. Banks, in general, in India act under the leadership of the Imperial Bank, whose model they copy and whose practice they introduce. In recent times the practice of banks has not taken at all a desirable turn and it would appear that the financing of industry has become more restricted than hitherto.

Much more is being heard about " locked-up " loans and " frozen " loans. Banks in India have not yet fully realised their responsibility to industry, which can never remain in a stable condition. The profit earning capacity of industry as a whole varies with those economic cycles, which bring about a steady and continuous rise of prices, or *vice versâ*. When things are moving up, it is all rosy for the industry. The condition reacts on the banks, who also tend to be more free and easy. When the tide is turned and depression sets in, industry suffers, profits become *non est*, and banks in India try to draw in their horns. The banking ideal is that banks should enable their clientele to get over a period of difficulty, consistent, of course with adherence to sound banking principles. A closer examination of values and margins, no bank can afford to neglect at any time, whether it is boom or depression, but an undue emphasis on due dates and repayments with regard to loans to industrial concerns can intensify a downward situation, against which industry may be fighting.

319. I have known of loans to industrial concerns by banks, which were renewed for many years. The fiction of payment on due date remained a fiction. The industrial concern was carrying stocks and was not carrying the money. When the condition of the industry became bad, *i.e.*, when its profit-earning capacity was reduced, the bank promptly hinted that renewals would not come. Such hints were not calculated to improve the credit of the party, but the loans were renewed all the same under stricter conditions. When an ultimatum was given by a particular bank, the loans were transferred to another bank. The security was the same, the industry was the same and the parties were the same, and it was not a bad business for the other bank. The parties, however, having had sad experience of their dealings with banks, which embarrassed them, as the time for renewal came near, through the uncertainty arranged the loan from an Indian State. Had there not been a lender, who was prepared to wait for his money, the industry would have suffered.

In my opinion the banks have done a dis-service to themselves and to industry through an exaggerated adherence to the principle of short-term investments. How the banks could prosper, where industry of the people is in a weak condition, is a question, which has not been considered in India, because everybody is taking the narrow and particularist view relating to his own interests, and

the larger national view affecting the whole community is not in the forefront.

320. *Two signatures rule.*—Closely connected with the fact that banks are at present financing industry, will be found the practice of two signatures on promissory notes, which the Imperial Bank is obliged to get by their Act, and which other banks have in many cases insisted upon as an additional security. This means that, in addition to the specific security taken, the banks also occupy the position of general creditors of both the parties signing the promissory notes. In the case of an industrial concern, the second signature is that of the managing agents. Banks in India have made great bones about advancing to industrial concerns, which have no managing agents, or of advancing to a company merely on its own signature. Such exceptions, as are known in the financial world, only go to prove the rule. This practice on the part of the banks has given strength and support to the system of managing agents. It detracts greatly from the claim that banks are financing industry. Such a claim should be sustained and could be sustained, only if banks could gauge the earning capacity and repaying power of an industry and could lend money to it either on its own credit unsecured,* or on such security as the industry has to offer. In effect, the banks are calling upon the industry of the country to get a guarantor, before it can have any money, however sound and flourishing it may be. The position here disclosed is one, in which the banks are not seeking the custom of industry, but industry is starved for finance, which it is entitled to. Where in this manner, there is a scramble, there can be no surprise for Indian borrowers getting less than European borrowers, who are better known, understood and trusted by European bank managers. Some improvement may be expected by the increase of banks, and some from the increased resources, which the establishment of the Reserve Bank will give to the existing banks by the rediscount facilities, which will be created. Improvement can also be sought by establishing conditions, which will secure greater credit to those, who constitute an important agency, next to the banks. Industrial concerns get credit for raw material and also secure finance from their selling agents. They also get it from private bankers, who make their own terms. In all these cases, as a rule, the terms are higher than those which a loan from a bank would carry. General improvement in the banking situation in the country would react on all these favourably.

It is the problem of paucity of credit and the ground for this belief lies not merely in the complaint that industry is not receiving adequate finance, but also in the high price, at which the available finance is being given.

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* Clean advances and unsecured loans are regarded in India as exceptional and as symptoms of favouritism or carelessness on the part of the management. They are however the acme of efficient and advanced banking and constitute some of the safest and best accounts in the books of first class banks in advanced countries. Refer to Questions 7913 to 7926 put by me to Mr. MacDonald of the Imperial Bank in his oral evidence.

321. *Direct Deposits.*—The finance of industry from deposits taken from the public directly has been a very important feature in Bombay, where it is on the decline, and in Ahmedabad, where it is still flourishing. The following statement would illustrate the importance of this system to the Indian textile industry of Bombay and Ahmedabad.

(In lakhs of rupees.)

	Bombay. (Figures for 64 mills.)		Ahmedabad. (Figures for 56 mills.)	
		Percentage of total finance.		Percentage of total finance.
	Rs.		Rs.	
1. Amount loaned by the Managing Agents .	5,32	21	2,64	24
2. Amount loaned by Banks	2,26	9	42	4
3. Amount of public deposits	2,73	11	4,26	39
4. Amount of Share Capital	12,14	49	3,40	32
5. Amount of Debentures issued . . .	2,38*	10	8	1

* Made up of:—46 from Managing Agents, 53 from Banks, 1,39 from public.

It will be noticed that the amount of public deposits is more important than the amount secured from banks. The absolute figures of these deposits run into a large enough figure for an arrangement of this kind to be called a system, and, therefore, deserving a close examination. In its origin, the system of deposits with industrial concerns was undoubtedly a reflex and a transformation of the old system of money kept for safe custody with the *Mahajan*. Its survival, even in these days, would lead one to believe, that the system must have worked fairly satisfactorily for both sides for long past. In recent years in Bombay, there have been cases, where depositors lost some of their money in industrial concerns, but the deterrent factor, according to evidence placed before us, was the counter attraction of high rates on Government cash certificates and on Government loans. The system may be said also to have weakened by the deliberate policy of banks taking a charge on the stocks and weakening the security of the depositors. In Ahmedabad, the system is working vigorously and well and no complaints have been heard either from the millowners, or from the depositors. Some of these deposits in Ahmedabad are secured by the mills at very low rates. The system deserves commendation and it should be at all events kept up, until a machinery is prepared, through which industrial concerns can readily borrow. There is no doubt that the mill industry in Bombay and in Ahmedabad would have never made the progress, which it has made, but for the existence of this system, and there is some reason to believe that all the causes, which have weakened this system in recent times, have also increased the difficulties of industrial finance.

The system, however, is, like many other good elements in Indian economic life, doomed. From the purely theoretical considerations,

the capacity of an individual, who has saved a small sum, to judge the safety and soundness of the concern, with which he deposits it, may be doubted. Not only can he not follow his money and know what is happening, but he remains in the position of an unsecured creditor, with absolute power to the directors to deal with all the assets, to which he can look up for the return of his money. The intervention of the bank between the borrower and the lender is justified, when the bank, by its superior equipment, would be in a position to know when and to whom to lend and for what period. From the point of view of the industry, the taking up of such deposits involves no greater danger than the taking of short-period loans from banks, as both may, and have been known to demand the return of the money at an inconvenient moment for the industry. There is no option for industry beset with a sudden demand for moneys borrowed like this, except to raise a loan elsewhere, and it may find itself in difficulties not merely with regard to the terms of the new loan, but with regard to getting it at all. If banks in India had made considerable progress, one could have promptly said that the method of direct deposits is a primitive method, unsuited to the requirements of modern industry and should be discouraged. But, until such moment is reached, it would seem to be a blessing. Depositors in mills are not different from depositors in banks in their mentality, and both are liable to panic, when there are any rumours going about, particularly when industry is not flourishing and there is depression. This is a danger, which modern financial organization carries with it. It is certainly a greater danger to an individual industrial enterprise. It would be to the interests of the banks to discourage this system of deposits. They could do so, by offering accommodation to industrial concerns at rates cheaper than the concerns have to pay for their deposits. Since the rates of these deposits are, however, low, such a development cannot be expected for a long time to come yet. The only bank, which can do this effectively, would be the Imperial Bank. Whether they have already done so in some cases, or whether inducement in this quarter was not sufficiently attractive and they have found ample occupation for their funds elsewhere, it is difficult to say.

322. *The Managing Agency system.*—It is impossible not to refer to the managing agency system in connection with the question of the finance of industry. The practice of managing agency varies from industry to industry and from place to place, but it is said that in many places the managing agents have placed substantial funds at the disposal of industrial enterprises in their charge. Realising that parties, who have funds, are anxious to secure sound investments, there should be no room for surprise, that loans are given to enterprises, whose affairs are not only fully known, but controlled by the investor. This result could also be brought about by the practice of banks asking for guarantees, or the managing agents' signature to the promissory notes, whenever they lend to industrial concerns. A better test of the question would be, not the amounts, which the managing agents have lent

to concerns under their control, but the amounts, which the managing agents lost by doing so. No figures were available to us in our enquiry, but information on this head will be most illuminating.

The system of managing agency in industry is a peculiarly Indian phenomenon, having no counterpart anywhere in the world. In its origin, it is probably a continuation of the large trading houses, which engaged indiscriminately in banking, industry and other activities. The frequent changes of domicile of men, who became old, from amongst the pioneers of European enterprise in India, might have strengthened it, but the system is old-fashioned and it has outlived its utility. It is disadvantageous to the shareholders, whose interests always come second to those of the managing agents. It has now held the field in industry to an alarming extent. New industrial capital could be drawn and new concerns could be promoted with ease only through the great established firms of managing agents. Outside of them, they would have an uphill task. This is not a healthy situation, as it does not augur for extensive development of industry. Managing agents have contracts with provision not only for long periods but for their perpetual renewal, and often the managing agents could not be got rid of, except when they resign. Some of the contracts involve payments to the managing agents, whether the company makes a profit or not. Some of them involve payments to them on purchases for the company, and some on sales, and some on both. In some cases, the managing agents get their commission on production, without any reference to the condition of the company. The managing agency system thus absorbs too large a share of the profits and makes industry as a whole less attractive to the investor. It, therefore, tends not to encourage, but to check the flow of capital in industry. Ancilliary activities of managing agents, who are known to speculate on the stock exchange in the shares of their own concerns, also lead to the same result. The managing agents take advantage of a rise of prices to boom their shares and unload them at top level, leaving the public to hold the baby. In this, they not only play with loaded dice, but they discourage the *bonâ fide* investor and give to industrial investments, a bad name. The managing agents' commissions (contracts) have been the subject matter of sale and transfer without any reference to the shareholders and without any idea of the consequences on the industry. When managing agents speculate and lose money, the credit of the concern under them is reduced or destroyed. The shareholders, who have purchased shares on the basis of the personal reputation, efficiency and competence of some partners in the managing agents' firm, may find themselves, without any notice, faced with the control of new parties, who may be young, or incompetent, or completely unfit to carry on the work. However, the system of the transfer of control of industry by heredity or by sale to parties not approved of by the company, is one, which must be put an end to by law, and it is recommended that when the revision of the Companies Act is undertaken by the Government of India, the introduction of reforms in this direction should receive their attention

323. The weaker and less desirable side of the managing agency system portrayed in the above paragraphs, need not be assumed to be of universal application, but it cannot be denied that it is inherent in the system. Wherever they exist, they are responsible for the weakness of industry, which no financial measures can overcome. It is the business of law to countermand everything, which will deter the flow of capital into industry. A provision, which demands the contract for management being limited to a certain number of years and being good during that period, only if a specified individual is able to offer his personal services, will not work hardship on most industrial concerns, that are managed by capable partners of managing agency firms. But, a provision of this kind will eliminate, wherever it exists, the additional risk to industry arising from the death or the financial weakness of the active manager. Under these contingencies, concerns in India, otherwise on a sound basis, have been known to have passed into incompetent hands with fatal results, without the shareholders of the company having any legal power to intervene for their own safety.

The managing agency interest often represents promoters' charges, which ought not to be a drag on the enterprise for ever. Sometimes it represents a capitalised goodwill, which a new party purchases in the belief, that it gives him a full right and title to squeeze the concern to his advantage within the law. Under a managing agency system it is inevitable, that the concern should pass on into weak hands with the passage of time. Over a large series of years, it involves Indian industry into jeopardy, to which rival industries in other countries are not subject.

324. *Long-period requirements.*—It was indicated in paragraph 138 that the requirements of industry even with regard to current stocks, are really long-period in the sense, that the concern will carry stocks, but not money. The fiction that this is a terminable and short-period loan is maintained both by the bank and by the industry, with the full knowledge, however, that the loan can be only repaid by a new loan. On this basis industry receives money from banks not only in India, but all over the world. It receives larger and freer credits and greater accommodation in bulk in some countries in the world as compared with others. Public opinion in some countries has discouraged conservatism on the part of banks in the interests of the general prosperity of the country. The expansion of industry intended particularly for export purposes, has been known to be stimulated by measures in other countries, at which conservative English bankers would hold up their hands in horror, but a demand for much greater enterprise on the part of banks in this direction is now insistent in the United Kingdom itself.

Instead of suggesting measures, which would, therefore, expand banking to suit the needs of industry, it was distressing to find the foreign " experts " laying down counsels of perfection with regard to what industry should do to adjust itself to the banking system

of this country.* In plain words, the suggestion was that an industrial concern, before it started, should derive, from its share capital itself, not only enough to enable it to set up the buildings and plant, but also enough to enable it to work in normal times. In other words, the whole of the block capital and the whole of the working capital required in normal times is to be secured before an industry should start. The fact that this is contrary to the industrial history not merely of this country, but of other countries, was pointed out to them, but they seemed to be over-anxious to exonerate banks in India from the charge, that they were not giving adequate finance. They seemed to be anxious to establish the principle for the guidance of the banks in this country, that it would be improper for them to give finance to industrial concerns either for capital shortage in the block, or for extensions, or for normal working capital. The position really was that industry in India had to adjust itself to the banking system run on this ideal line. Interpreted in this light, much of the accommodation, which industries are at present receiving from banks, would be cut off. There could be no hope of industry receiving adequate finance in future, if banks are dominated by this novel and mischievous doctrine. If banks controlled and managed by Europeans in this country were all imbued with this idea, the prospects of Indian industry getting proper finance would become extremely slender.

The foreign " experts " admitted that there were in their own countries cases, when an industrial concern was short of money for any of the three purposes already noted. In such cases the floating of a debenture loan was suggested. In Germany, the bank would advise the client as to the time and the manner, in which such a loan should be placed on the market and in conformity with German practice, where banks do a lot of stock exchange work, help in distributing such loan amongst the investors. Prior to, and in anticipation of, such transaction, the banks would advance the concern all that it required. Such advances would run sometimes for a period of two years or more. This was the system, which India was asked to adopt. It was suggested, that industrial concerns in India should get away from existing arrangements and should gravitate towards this idea of debenture finance, not merely

* " It has to be made clear that it is not sufficient in itself that an industrial firm should put up its block from its own capital and that, having done so, the firm can appeal to banks for loans and assistance. Not only block but also normal working capital has to be furnished out of the firm's own capital, and before the firm is fit for Industrial Banking or Industrial Finance, it must have been in operation for a sufficient period to prove that it is strong enough." * * * * *

" If the whole of the working capital of an industrial concern is borrowed money, part of the loan would become locked up and the concern would never be free from indebtedness to the bank. No commercial bank, which adheres to the sound and common principles that its credits ought to have a fluctuating and not a permanent character, and that its customers ought not to use their credit during the whole of the year, would be likely to consider such an advance as being suitable for its activities. The customer who has no reasonable prospect of being able to repay his debt to the bank, would expose himself to a serious danger if the bank should, for any reason, decide to call in its loan."—(Foreign 'Experts' Report, pages 5 and 6.)

for purposes of capital shortage in block or for extensions, but also for the full requirements of normal working capital.

325. *The Debenture.*—It was claimed as a merit of this scheme, that it would relieve industry from the Damocles sword in the form of sudden demand both from direct deposits and from short-period and terminable bank loans. To the extent to which the danger is real, this would be so, but, as noticed in previous paragraphs, the danger is theoretical and any alternative, which may be recommended, would have to be tested on the ground both of feasibility and of comparative cost.

Before taking up the question of the comparative cost, one has to examine the light, in which the debenture issue by industrial concerns is held by public opinion in India. A debenture being essentially a mortgage, would affect the credit of industrial concerns at once with banks. This was brought out in evidence before us. Unless the debenture issue was, therefore, successful and brought in amounts, which would satisfy *all* the needs of an industrial concern, a changeover would not commend itself. Companies with a small amount of debenture stock find it not only difficult to secure loans and cash credits from banks on the usual terms, on which such accommodation is given, but would also find it difficult to continue the use of credits in respect of raw material, which they often have and which play quite an important part in their finance. The issue of a debenture loan, in other words, in India would not be regarded as an improvement in the affairs of a company putting it on a safe and sound basis, but is more likely to be looked upon as a reconstruction arising out of the weakness of its business. The debenture issue, in order to be popular, would have to be made by the strongest companies, but the strongest concerns would not have the motive to initiate this change. This is a psychological factor of very great importance. The search on the part of industrial concerns in India has been, wherever possible and even with some strain, to pay off debentures rather than to retain them on account of their attractive feature of being a long-period loan.

326. *Comparative cost.*—Debenture issues of industrial concerns have carried interest in India at varying rates not merely according to the soundness and credit of the concerns issuing them, but depending on the time of issue, the volume of issue and reputation of the under-writers. The interest is known to be anything from 5 per cent. to 9 per cent. But, in addition to the interest, there are the initial legal and stamp charges on the issue to be paid by the company, and there is the under-writing commission. Sometimes the issue price itself is below par. It would be invidious to name concerns in this report, but first-class concerns with solid security offered to the debenture-holders have been known to have paid 8½ per cent. *plus* the additional charges indicated above. It would be impossible to conclude that debenture loans for any, except the best concerns, could be secured on the whole at rates, which would compare favourably either with direct deposits, or with the charges

of bank loans. The suggested system, therefore, would involve immediately a substantial increase in the charges, which existing industry has to bear.

327. *Feasibility.*—Since every industry, which has not built up large reserves, would require working capital, the proposal would involve a wholesale issue of debentures running into many crores of rupees. What the proportion of debenture capital should be to the own capital of the company, has not been indicated by the foreign "experts", who put forward the proposal.

	Joint Stock Companies on Cacutta list.	Joint Stock Companies on Bombay list.	Total.
	Crore (Rs.)	Crore (Rs.)	Crore (Rs.)
Share Capital	76·37	52·83	129·20
Debentures	8·05	17·51*	25·56

The above table brings out at once how limited is the vogue of debentures in India and how extensive, therefore, would have to be the new issues. Will the investor in India absorb debentures in such quantities? Debentures, because they involve heavy transfer fee, are generally taken by the more permanent holders amongst the investors. Because of the limited return, the prospects of serious capital appreciation do not attach to debentures. They have no speculative attraction. The amount going into debenture-holdings every year is limited and too large an offer cannot but depreciate the values, both of old and of new debentures. If it leads to the offer of an increased rate even for some of the issues, that would in itself detract largely from the merits of whole scheme.

The programme does not seem to be feasible in India, because of the lack of issue houses. In Germany, from the experience of which this scheme has emanated, banks themselves help the issues. They have a standing clientele, who receive advice from them as to investments and who accept such advice. Substantial amounts are thus taken up in advance, relieving the strain on the lay public, when the issue is actually made. Under-writing operations being under such circumstances easier, the costs pertaining to under-writing are also low. In India, the system of banks advising their clients as to investments, which such clients make, is by no means universal or as widespread as one would desire. There are reputable firms of stockbrokers, but it would be impossible to whip up the enthusiasm of these stock-brokers in debenture issues, which cannot in their very nature become the subject matter of frequent quotation or an active market operation. On the other hand, it is possible that some of the people interested in holding debentures, would fight shy of dealings with stock-brokers. Banks themselves cannot be considered as important holders of debenture stock in India. The Imperial Bank Act does not permit them to hold such

* A large chunk of these is understood to be sterling debentures and therefore of less significance in the discussion in hand.

bonds. Other banks are possibly deterred by the fact, that there is not always a ready market for the disposal of the stock. The holders of debentures amongst the public are not encouraged by the banks, when such holders desire a loan. Nor have banks in India been known to encourage debenture issues of industrial concerns, by enabling people to subscribe to them on the payment of an initial margin. Insurance companies, which in other countries hold debentures in large quantities, cannot be expected to support industrial debentures in India, for reasons dealt with in paragraph 353. There are no investment trusts in India, which would hold debentures and tap the savings of the people through their own bonds.

The market for debentures, as things are in India, is thus limited. It would be of national importance to take measures, by which this market can be expanded, and a debenture as an instrument of investment may be made popular.

The issue of debentures to meet the financial requirements of industry, to the extent to which they are unsatisfied now, is thus beset with more than ordinary difficulties. It cannot be accepted as the sole measure for securing to industry, all that it would require in the way of finance. As an immediate panacea, it holds out no hope. This was the unanimous feeling in the Committee, which, therefore, came to the conclusion that, for giving loans to industry extending over periods longer than the ordinary bank loans, special institutions would be required. It was further recognised that the investor would have to be tempted by a more attractive debenture bond than that, which an isolated industrial concern could provide him with.

328. *The need of special institutions.*—The Committee felt that it would not be in the interests of India to withhold from industry the financial support, which it does not get now and which it deserves, until an investment market grew up and showed itself willing to take up debenture bonds in adequate quantities. The remedy indicated by the foreign " experts " involved altogether a longer route with some doubtful results at the destination, if it was ever reached.

The European witnesses were generally opposed to the idea of an industrial bank. They were sceptic about its need. They were doubtful about its success and they were frankly hostile to the notion of state aid extended to industry through a special institution of this kind or in any other way. This opinion received an emphatic echo in the views of the foreign " experts ", who strongly deprecated state aid to industrial enterprises on lines, which the Committee felt inclined to adopt. I shall quote their words:

" We consider these suggestions thoroughly unsound and we do not doubt that, should the Provincial Governments follow the lines of these suggestions, taxpayers would be involved in serious losses. The experience obtained under the State Aid to Industries Acts, now in operation in some of the Provinces, may serve as a deterrent example. This experience is the common one in cases where a

system of extensive State aid in economic life has been introduced."*

The causes of the ill-success of state aid to industry have been examined in the Provincial reports. Whatever else they lead to, they do not discredit the objects underlying or the principle of state aid. That interference in economic life by the state leads to losses to the taxpayer, or is generally deterrent to the economic wellbeing of the country, is an exploded idea, as the modern state in every country in the world has not only an extensive system of regulation, but a well defined policy, which secures direct and indirect benefits to those industries, which are for the time being considered to be in need of such benefits. India might have been grateful to the foreign " experts ", had they told us not only the many things, which must not be done, but a few of the things, which were definitely done in their own respective countries, to secure the wellbeing and growth of industry, not merely through financial assistance, but in a hundred other ways.†

329. There seems to be a confusion of ideas with regard to the functions of an industrial bank in India, a confusion, which the foreign " experts " appear also to have shared. An industrial bank is primarily wanted in order to make available to industry larger volume of finance than it can get at present, and on better terms both as to the period of the loan and as to the rate of interest. So far as this side of the activity of an industrial bank is concerned, it would do for industry what a commercial bank does for trade. There is nothing inherently wrong about it and in fact it would be a very desirable thing, if an industrial bank with such a programme could come into existence by private enterprise and if it would function altogether without any assistance from the state. It is because it was recognised that the prospects of such a banking institution coming in existence unhelped were small, that Indian opinion has urged specific assistance to be given, which would lead to its establishment. The assistance, which the witnesses generally favoured, was in respect of shares or debentures, or both. In the matter of debentures, again, it was suggested by some that such debentures should be guaranteed as to principal as well as interest, and by others, that they should be guaranteed as to interest alone, by some, that all debentures should be guaranteed, and by others, that debentures issued either up to a certain amount, or during a certain period after the bank was started, should be so guaranteed. The guarantee by Government in any form, or the subscription to shares, would necessarily involve the framing of rules, under which the industrial bank should work and the provision for some control on its operations to ensure the safety of the bank and of the holders of debentures guaranteed by Government.

Assistance by Government to the industrial bank, which will enable it to come into existence and to have the necessary funds for

* Foreign " Experts' " Report.

† Beet sugar subsidy given by the state in U. K. during 1930-31 was £5,400,000, the budget figure for the same purpose for current year is £2,150,000.

its operations, does not necessarily involve assistance by the latter to industrial concerns, except on purely business considerations. It is because industry is willing to pay the price for finance and yet is unable to get it, that something substantial has to be done.

330. *Other directions of Government aid.*—To what extent and in what manner should Government assistance be given to industry, apart from bringing the industrial bank into existence on the above plan? It was recognised by witnesses and generally urged, that there were other directions in which assistance to industry was necessary. The state aid to industry involves assistance not merely in the form of finance, but in various other ways. The demand that similar acts should be passed in other provinces is one, which appears reasonable, and it is recommended that steps should be taken in these directions. The requirements of industry would be different in different provinces. They would be also different according to the size of the industry. There would be also another factor, *viz.*, whether the industries are new and of a pioneer nature, or whether they are on lines already indicated by experience in any part of India.

In order to secure progressive industry, there would have to be in each province a census of production giving some idea of what is being done now. Simultaneously a programme for industrial advancement in each province would have to be prepared. There would have to be an indication, whether the needs of the province are supplied from articles manufactured elsewhere in India, or from imported articles. There would have to be also a statement of the principal products of the province, the extent to which such products become the subject matter of commerce, the form in which such surplus products are exported, and whether there are any industries, which could be set up in respect of these products, which would enhance their value. Progress in industry can be in many directions, but the most promising in India is the first step with regard to the produce, as it comes from the field. This may be illustrated in the case of rice. It is better for India to export rice than to export paddy, and the establishment of rice mills is indicated. In the case of oil seeds, it would be better for India to export oil-cake and oil rather than to export the oil seeds. It would be better for India to export tanned hides and skins than to export them raw. This would also apply to mineral products and forest products.

331. There are industries, which are interlocking. If there are a sufficient number of paper mills, a paper pulp mill will be justified. It has been found elsewhere in the world more economical for one set of people to manufacture paper pulp, and for another to manufacture paper therefrom. Efforts have to be linked together. Subsidiary industries, industries for the utilisation of waste products, repair industries and workshop, industries for the production of packing material, and industries, which produce essential articles like sulphuric acid, would be wanted. There would be, again, industries, the entire output of which would be taken not by the

market, but by the other industries. Much would have to be done, therefore, before industries putting the final product in the hands of the consumer can be called into being. Progress may be either on the vertical basis or horizontal. It may be considered desirable to use the experience, India now has, to secure expansion along a known path and eliminate foreign supplies altogether as in textiles, and/or the creation of new experience in directions hitherto unattempted may be sought in a matter of national safety.

Enterprise and capital might be available, but information may be lacking. The primary aim of Government should be to bring relevant information together and to make it available to the business community. After this is done, it may be found in some cases that the risks attached to an enterprise are great, that it is in the nature of an experiment, and private capital could not be drawn into the business unless some initial difficulties were overcome, or unless the inevitable loss in the first year or two was made good. There would be other enterprises, in which the difficulties may not relate to successful technical production, but to marketing. There may be still others, which want an adjustment of railway rates. In some cases, where a public department needs the article of which the manufacture is proposed, a mere continuity of orders at an assured price during the first few years would be all that the private enterprise seeks. In several cases, measures may be needed, which would divert Indian purchasing power to articles made in India to the exclusion of imported articles. There would be still another class, which could not come into existence, except with a very large capital both initial and working, and whose difficulties may not be merely financial, but may also require attention in every one of the directions mentioned above.

332. It would be thus noticed, that before India can seek considerable progress of her industries, Government assistance will be absolutely essential. The question then arises, whether such assistance should be given by central or provincial governments, whether it should be given departmentally, or through industrial banks, which may come into existence, whether such industrial banks should be an all-India organization with branches, or independent provincial banks with an all-India co-ordinating board.

It is inevitable that the collection of information regarding industry and the administration of general regulations affecting industry should be matters of administration pure and simple. But decisions, which require business knowledge, cannot be taken by lay ministers, however painstaking and earnest, they may be.

The lines of a census of production, which must be uniform for all-India, would have to be laid down centrally. If it is not considered advisable to incur special expenditure for an elaborate census, available information from official and non-official sources and such further information as could be secured without much delay, would have to be brought together on common lines. The industrial programme would have to be fixed so as to avoid overlapping, duplication and waste. The lines of advance will have to

be determined with reference to progress in other countries, with reference to amounts imported, market available in India, prospects of different industries, and difficulties of different industries. All this would have to be done centrally in a definite link with knowledge of local conditions. A small board consisting of one economist, one businessman, and one technologist with the Director of Industries acting as secretary and member, wherever such an official exists, would have to be set up in the provinces. A similar all-India body would have to sit and would have to work in close collaboration with provincial bodies. It is recommended that the formulation of an industrial policy by the state and its declaration should take place centrally, and that simultaneously arrangements may be made to create the bodies indicated. Much work in India would have to be secured on the voluntary basis and it is hoped that the manner, in which Government will proceed about these boards, will be such as to inspire the necessary enthusiasm of non-officials, who will work on these bodies in an honorary capacity. The emergence of a programme in each province, consistent with the needs of India as a whole, would then indicate in what manner assistance could be usefully rendered by the central Government, and in what directions it could be rendered by the provincial Governments. It may be emphasised that this is purely an administrative matter as the central Government would have no direct interest and not only would benefit accrue to the provinces, but in practical details the operation of the assistance would be attended to by provincial Governments.

It is obvious that assistance other than financial would have to be given by Government through a special machinery created for this purpose. With regard to financial assistance, it was felt by the Committee that a business judgment, which the industrial banks could exercise, would be of great use. Co-operation with such banks ought not to be difficult, since it is expected that for some time to come Government will have a direct link with these banks, whom they will have assisted in various ways.

333. *Industrial Bank.*—Non-Indian opinion urged delay in the establishment of an industrial bank on the ground of depression of trade, but it may be pointed out, that, even if the recommendations of the Central Banking Committee in this direction are accepted immediately, some time would necessarily elapse before such bank comes to the working stage. The psychological effect, however, of the immediate acceptance of the proposal by Government would be very favourable, as it would indicate not only a definite change of Government policy with regard to industries in India, but it would create a more hopeful outlook for the future in the matter of finance.

I recommend that an industrial bank should be established with branches for the present at Bombay, Calcutta, Madras, Lahore and Cawnpore. The reasons, which impressed me to make this recom-

mendation, instead of supporting the proposal for independent provincial industrial banks, appealed also to the foreign " experts ". The majority Committee have also taken account of them in paragraph 409 of their report, but the all-India bank, according to them, would be an additional organization. The direct and initial effort, according to them, should be made in the provinces. I shall, therefore, summarise the reasons for my recommendation, in which I desire that such funds and such energy as India can spare, should not be used for independent provinical organizations.

I am inclined to think that excessive emphasis is being laid on the autonomy of the provinces generally in matters relating to industry,—an emphasis, which in economic matters, is calculated to create separate interests and centrifugal tendencies. Whether it is politically a wise ideal for this country to have strong provinces and a weak central Government, or whether there is no alternative to that arrangement, are questions that cannot be dealt with here. But it may be noted that, whatever the historical origin of the provinces, they have been in the economic sense one for a long time. Arising from administrative convenience and the creation of separate finance for them, provincial feelings and watchfulness have grown so much, that the words " provincial patriotism " occur in the report of one of the Provincial Committees. As industrially separate units, provinces do not exist, and the encouragement of the idea of separate industrial interests of the provinces cannot lead to any good.* The practical consideration, which those who urged independent provincial organizations of an industrial bank, brought forward, was that it will be the provincial Governments, that will hold the shares and guarantee debentures, and participate in the supervision of the rules and the control of provincial banks. I should like to point out that the tax-payer in the province is not a different party from the tax-payer of the central Government, taking the community as a whole. Such contribution to the shares as may be recommended on behalf of the tax-payer in an all-India institution, could be divided amongst the provinces on an equitable basis, in the determination of which basis, they would be parties. So far as the raising of bonds is concerned, the guarantee of the central Government would not only be more effective in securing a larger volume of money at a low rate, but would be the only assurance to those provinces, whose resources and credit may not be very high, or who have no money market of their own, to secure the necessary funds. This would be the best way to launch off industrial banks in this country without a scramble and without different provinces competing amongst themselves. If and when resort to a foreign market becomes desirable and possible for debenture bonds

*" The proposals of the Statutory Commission would give a wide extension of responsibility and independence to the provincial Governments. Nevertheless, the provinces cannot be regarded as separate economic units, and they must remain to a large extent dependent on the central Government's financial administration and the maintenance of its credit." (Government of India's despatch for Constitutional Reform, 1930, p. 152.)

of the industrial bank to be placed out of the country, it is the guarantee of the central Government, which would prove more acceptable.

334. The bias of the foreign "experts" was entirely for a central institution, which would issue industrial bonds, regulate their amounts and rates with reference to other issues, both of public loans and of private flotations. The requisite skill and judgment may not be available in every province. Independent provincial organizations would give an immediate advantage to Bombay and Calcutta on financial grounds, which, if the picture of provincial jealousies, which some people love to draw, were accepted, would be very strongly resented all over India.

Apart from these financial considerations, the fact that enterprises located in one province are controlled from another province, would create practical difficulties in defining the independent zone of provincial banks. Enterprises are at present registered under a single law anywhere in India, and would operate freely anywhere. The whole body of law regulating commerce and industry, is, and may be, expected to remain a central subject. There will be assistance required by industry, which may be of a purely local nature, but more often there will be large questions affecting protection by customs, tariff, adjustment of railway rates, rules relating to stores purchases of the large central spending departments like the military, the railways, and post office, in which adjustments could be secured immediately and without much red tape by an All-India bank. Provincial Governments could in this, as in other matters, act as far as may be necessary as agents of the central Government. The links in administration through the industrial boards suggested in paragraph 332 could be utilised for getting the necessary co-ordination in details between provincial Governments and the provincial branch of the All-India bank.

335. It will be thus noticed that the larger economic considerations affecting the nation as a whole, and the more urgent financial considerations affecting the successful working of the industrial bank, point to the need of an All-India organization. With regard to the details of administrative arrangement, which makes industry a transferred subject at present in the provinces, adjustments will have to be made from the orientation of a definite All-India industrial policy. The question of encouraging smaller cottage industry and the relation of the working of the state aid to industry, and the provincial branch of the All-India bank, would have to be gone into, but they do not in themselves offer insuperable difficulties, and certainly do not over-ride the important considerations already set out. It is essential that the administrative machine should be elastic and should be in conformity with the economic requirements. It would be unfortunate, if administrative conveniences were allowed to create artificial divisions in the economic life and organization of the country, or to strengthen those evil tendencies of separate interests within the larger fold.

There is still another group of important arguments in favour of a central all-India bank. There would be a distinct convenience and economy with regard to the employment of such technical staff for initial reports, for valuations of industrial plant, and for advice to concerns assisted, as may be engaged either full time or on some reasonable scale of fees for a definite piece of work, if this were done by a central institution. In the training and selection of the ordinary staff of the bank, there will be also greater convenience as well as saving. In fixing uniform rules, there will be a guarantee of sound work. The experience gained in one part of the country could be usefully brought to bear in another part only through a central institution. A central institution could more economically keep the necessary touch with foreign countries for securing information, as to what is being done there, as to different kinds of plant and equipment, the most economical and modern methods employed, the more salutary regulations for the safety and well being of both labour and capital engaged in industry, and for possible markets for the surplus production of India. It is only an all-India bank, working in close co-operation with the industrial boards, which could render help, on such terms as may come to be determined, to the client of the bank in the various provinces with regard to their operations abroad, particularly the selection, purchase and despatch of machinery, and the recruitment of foreign technical staff.

336. Not only will economy be effected in so many directions, but duplication and waste of effort will also be avoided. The full results of the census of production and of the industrial programme would be before the central board, who would work in close co-operation with the central board of the all-India industrial bank. The interests of India as a whole would be better safeguarded, if some of the directions, in which new industries could be established, were settled centrally. As an illustration, it may be pointed out that there may be more than one place, which may offer the necessary raw material, and some advantages for the establishment of the aluminium industry. It would be fatal, if questions of provincial pride, or the desire to expand industry in a province were allowed to interfere in decisions, as to which of the several places would give the greatest public advantage, and which would, therefore, be encouraged by financial facilities. The exclusion of some efforts like this from some provinces will not mean that the total potentialities of the province will suffer. Progress may be possible in many directions and desirable in many others, but would be always restricted by available resources, and the most economical disposal of these should be a national concern. There will be always the interests of capitalists and businessmen, which will pull one way or the other, but it would not be right to allow capitalists and businessmen to strengthen their applications and requests for financial assistance on the ground of provincial sentiment.

337. *Capital and resources of the All-India Industrial Bank.*— The factors affecting the consideration of the capital and resources

of the bank would be: what amounts could be reasonably expected from Government and from the public, who would take up the debentures? How much of the total, which Government can borrow in this country and abroad during the next few years, could be set apart for this purpose, having regard to the other calls on Government resources? The needs of India's existing industry are large and the potential growth of such industry is considerable. It will be a matter of policy for the state to decide at what rate and by what stages, this growth is to be secured. The decision cannot be reached, therefore, on the basis of the demand for industrial finance, since such a demand is already very large and would increase in future. It has to be reached from the side of the availability of funds. The capital ought to be such, as will give the bank a definite status not merely in India but abroad. It should be such, as would create the psychological factors of confidence and hopefulness amongst the public and in the business community. If the bank is to cater for the requirements of several provinces with the projected five branches, each of these branches should be equipped with funds, which would enable it to get a sufficient turnover, so as to cover the costs and also to satisfy reasonable demands for accommodation, which may be made on it by existing industries. Taking all these into account, it is recommended that the share capital of such a bank should not be less than Rs. 5 crores. It is further recommended that Government should hold at no time less than 51 per cent. of these shares, until the matter is carefully examined after a few years' work. The balance may be offered to the public, but it is somewhat doubtful if the public will come forward to subscribe to these shares in large numbers, not merely because of the novelty of the enterprise, but because the institution has inevitably to start as a Government institution, and public confidence in the business management of Government officials is not very high. All the same, it is not advisable to improve the attractiveness of the shares to the public by the kind of guarantee of dividend, which was suggested by some witnesses. Such a guarantee would be objectionable in principle. Shareholders are partners and if those, who represent them, are expected to bring with them commercial watchfulness, which goes with a search for profits, such incentive should not be weakened by a guarantee. The public investment is more likely to be attracted towards the bonds, which will be issued by this bank. It was suggested that there should be a very severe restriction on the amount of bonds to be issued. The foreign " experts " and European witnesses were for a definite restriction of the amount of bonds, and the restriction suggested was in the proportion of 1:2. No justification exists in my mind for such restriction, which might not only fall short of the reasonable requirements, but might prove fatal, by not providing the necessary turnover, on which expenses could be spread out. The issue of bonds to the share capital of different kinds of institutions depends upon the margin of safety, which is provided in the investments of the funds so raised, as well as upon the share capital.

Any hard and fast proportion to the paid-up share capital is not recommended. The board of the industrial bank will, it is hoped, act in very close co-operation with the board of the Reserve Bank and possibly have some common directors. The head office of the industrial bank should be located, where the head office of the Reserve Bank is, and the financial judgment of these parties may be trusted not to exceed safe limits. The greater the care, which will be exercised in giving out loans, the greater will be the justification for attracting from the public as much amount, as they will be willing to give by investments in the bonds of an all-India industrial bank. In order to secure this result, it is recommended that these bonds should be guaranteed both as to principal and as to interest, and that they should be included in the list of trustee securities.

In order to make the industrial bonds popular, Government bankers should provide for a scheme for their purchase by instalment. It is also recommended that Government should support the market for these bonds by authorising the Reserve Bank to hold a certain amount in the currency reserves as well as in funds of its banking department. The main factor of strength for these bonds would, however, be a rigid and careful provision for redemption, in periods not exceeding thirty years. Sinking fund and other moneys, which are to be used for redemption, should be lodged with the Reserve Bank and should be re-invested in authorised stock with due regard to the date of maturity.

338. The foreign " experts " and the European witnesses emphasised not merely the general principle that it would be dangerous to make long-period loans from short-period deposits, but urged that there should be a prohibition on the industrial bank taking deposits, except for periods exceeding two years, and in the case of deposit finance, the loans should not exceed the period of currency of the deposits. They urged that an institution of this kind should be kept severely apart and should not at any point compete with the existing banks in the country. The anxiety to protect the existing banks in the country and to protect their deposits from being attracted to the new all-India bank, is intelligible, but the water-tight arrangement, which is suggested, cannot be recommended. Industrial concerns, that would borrow from the industrial bank, would use the money realised for all their purposes. The securities, which the industrial bank might retain, including a general charge on the assets of the concern, might render it very difficult for them to go to other banks or agencies for working or for any other finance. Often a loan may be settled, but the moneys may not be wanted by them for many months. During these periods and under such circumstances, it would not be advisable to prevent the industrial bank from keeping their current accounts and also from accepting deposit accounts, at least of their clients, even if such deposits were for one month, six months or twelve months. On the other hand, the assistance, which an industry may require, may be in the form of acceptance

to secure the movement of raw materials to it. It may be in the form of a discount against manufactured articles in stock or in movement. These demands of commercial banking with reference to the bank's own clients would be more or less known and in the bulk would not be very excessive. It is inevitable that in centres, where the office of the industrial bank is located, in these directions at all events, both with regard to deposits and with regard to commercial banking, restrictions would prove inconvenient as well as impossible. There is some weight, however, in the plea that a state institution should not attract deposits going into commercial banks, by offering higher rates, or a slightly lower rate, which would cover the additional security of money in Government institutions. It is, therefore, recommended that there should be no prohibition with regard to taking of deposits by the all-India industrial bank at its various branches, but that the board of the bank should not fix rates, which would appear, or, be in effective competition with the rates offered by Indian joint stock banks. Any representation from Indian joint stock banks in this direction should receive the greatest consideration.

339. *Constitution.*—The constitution of the all-India industrial bank should be one, which will command confidence. Association of businessmen, both at the centre and in connection with each provincial branch is, recommended and in the selection of these, it is hoped, that Government would try, in consultation with provincial Governments, to secure the co-operation of some of the best minds in the country. Experience of industry, financial knowledge, and wide business outlook should be the characteristics of the directors of such an institution. It must be realised that this is an experiment* on a large scale and in a direction, which will affect national well-being. The directors elected by the shareholders will come in any case to the extent, to which such shares are held by the public, but the object of retaining 51 per cent. of the shares in Government hands is to prevent the bank from falling into the hands of any section, which might frustrate its principal object, and to correct the vagaries and make up for the deficiencies of a board elected by lay shareholders.

It will be in the selection of the managing-governor at the centre and managers of provincial branches, that great care will have to be exercised not only to secure men of proved integrity and sound judgment, but men, who will, consistent with their great responsibility, share the national outlook. It is true that once the industrial bank is established, it will have to act on strictly business principles. Assistance not justified on such principles, would have to be applied for and secured, if possible, independently of the

* The idea that industrial banking on these lines has been tried in India and has failed is wrong. Whatever may have been in the minds of the promoters of the Tata Industrial Bank, in practice, this institution did not differ materially from any ordinary commercial bank. Nor did it come to grief from financing of industry on lines suggested for the All-India Industrial Bank.

bank, through the industrial boards, from Government. But it will be fatal to the success of the scheme, if complaints of the same kind as have been heard against the Imperial Bank and the foreign banks working in this country, were made with regard to the industrial bank. No room should, therefore, be given for the possibility of such complaints.

340. *The working of the Bank.*—The principal functions, which the bank would perform, would be to give loans to industrial concerns for periods ranging from one to ten years, according to their needs. The bank would have to make careful enquiries into the purposes of such loans and in the prospects of the industry. They would have to assess carefully the security offered and to keep a margin of safety for the bank's funds. They would also help industrial concerns to make extensions and to replace old by new machinery. They would also advance money as working capital on a proper valuation and margin on such security as the concern can offer.

The bank would also help their clients in other ways on the agency basis. They would also render help to their clients by bringing them in touch with the industrial boards for help in directions other than those coming within the purview of the bank. The bank would help the clients not merely with the loan, but would help them further to float their debentures. The bank would have the power to underwrite such debentures and to place them on the market as facilities arise, or to hold them in the interval as part of their investments.

With regard to new concerns, the bank would not only give advice to promoters, but should have the statutory power to take up preferential capital not exceeding one-third of that, which is secured from the public. Such preferential shares should carry with them preferential rights both as to interest and as to capital. As a rule, it is not advisable for the industrial bank to make direct investments in shares, either of new or of old companies, though it may be expected that blocks of shares and of debentures might constitute in some cases collaterals in respect of loans. Great vigilance will be required on the part of the bank, not only in effecting recoveries, but in watching the general progress of a concern. Consistent with the safety of the borrower, they will have to secure all information about what is going on. The industrial bank should have the power, when it feels the necessity, of deputing one of its officials to attend board meetings or of nominating a director on the board of borrowing concerns from a panel approved by its own central board.

It would be essential for the Act constituting the all-India industrial bank to give wide powers to the bank itself. Such powers as in the opinion of the board could be usefully exercised by the manager or the local committees of a provincial branch would then be delegated, and in all cases the principal rules of business at provincial branches would be settled by the board. It was

definitely urged and it was recommended that the industrial bank should not deal with industrial concerns, in which the management and control is foreign, or the majority of directors are foreign, or the majority of shares are held by non-Indians. If the object of industrial policy in India is to secure the growth of industry under Indian control, such a rule would have to be observed. If the board of the industrial bank are selected with due regard to the national outlook, the making of such a rule should indeed be unnecessary, as only in an extreme case and where it is unavoidable and where Indian enterprise cannot for any reason come on the scene, would they go out of their way to proffer assistance to non-Indian concerns.

341. One word of caution may be given in conclusion. Briefly, the impetus given to industrial activity in this country by the industrial bank and its branches would be great, because it would be cumulative. By the law of dispersion, support given to the economic organization at one spot would spread according to circumstances more or less all over. Foreign interests are not likely to look upon such growth or upon the activity of such an institution with marked favour. Suggestions for delaying the establishment of this institution have already been made. The foreign " experts " coined a new name, which has been adopted by the majority Committee, *viz.* " Industrial Corporation." I would favour the retention of the orthodox words " Industrial Bank ", because it would more readily convey to the public in this country, what is really intended to be done. So long as sound banking principles are adhered to in the grant of loans, the industrial bank might lead to progress, unless its initial years are dogged with a period of falling prices and heavy depression. So long as there is an active state policy with regard to industry in directions other than finance, so long as dumping and every other business device, by which the imported article would seek to fight the locally manufactured one, are quickly detected and warded off, industry as a whole is bound to respond to a measure calculated to bring more finance to it and on better terms.

CHAPTER XIX.

THRIFT AND SAVINGS.

342. Savings represent the surplus of immediate production over consumption. It represents deferred expenditure. It is the accumulated command over utilities in the future, which an individual has, and which, while he does not himself use it, can be used by other individuals at a charge. Modern economic organization depends on capital, and capital arises out of savings. The importance of thrift and savings institutions has been recognized all over the world. A special world conference met in 1927 at Rome to compare means and methods employed in different parts of the world.

India is considered to be poor, which is a way of saying many things in one word, but, precisely from the point of view of savings, it will mean that there are not many in the community, who have the surplus after they have spent from their income, what is required to maintain themselves. The savings per head being small, such total volume as can emerge in any particular year, has to do the duty of repairing wastages in the capital stock of the country, and thereafter of adding something to it, if there is anything to spare. From the national point of view, it is the total savings that matter. Whether there have been in recent times changes in the economic life of the country, by which larger money passes through the hands of the working class, is a question, that would have to be ascertained elsewhere. Whether, in the event of more money going to many people, there is merely what is called an improvement of the standard of life, or whether it leads also to savings, has to be considered. In western countries, the savings of the mass of the people run into formidable figures. They have the will to save and the desire to save and are equipped with the necessary machinery, by which they could save. A community, that is unable to make up by its collective savings the wastages in its capital assets grows poorer. In their case, capital shortage has sometimes to be made up by importing capital from abroad with all its attendant evils, if unregulated.

343. There is a direct relationship between the rate of interest earned and the inclination to save. Where a minimum standard of life is wanted, a low rate stimulates the saving, but the savings when invested yield that standard; as a rule the effect is the other way. A higher rate of interest induces larger saving. There is nothing more destructive of the feeling of thrift than sudden and heavy losses, which intensify the feeling of uncertainty in the community and render the present much more vivid and real. Capital savings are the result of a keen realisation of the future accompanied by a feeling that what is saved now would be reasonably safe and would be available to the party in suitable form, when he needs it in future.

The rate of saving in India is not very high and the capital wastage is to be made up very considerably. India would, therefore, take much longer to achieve the same results as western countries. Her national production, though very considerable in the total, is low per head. Her consumption, in spite of the low standard of life, eats up much of what is produced.

Savings emanate at the hands of a very few classes in India. Of course, the rich ones who cannot spend all their income and who save involuntarily, constitute a microscopic section.

The savings of the middle class in India are considerable in the mass, but they are very low compared with savings in any other country, because the calls on the middle class are great. Social institutions in India make great depredations on individual savings in the support, which has to be given to relations and others in case of distress, temporary or permanent, ceremonies and charities. There are no rules of retirement. There is no scheme of insurance. The stimulus and ambition to own land and houses is real, but it has resulted in uneconomic rise in the value of land. The form, in which savings can be kept, has also affected the volume of savings.

344. What is then the position of the agriculturist, who has, after sale of his produce and effecting various payments, kept aside something for use during the following months? He is at present carrying this money on his own person. The view that he puts it for safety with the village Mahajan was discounted by the fact, that he is more often than not in debt and is not likely to trust the village Mahajan with moneys, which are necessary for him and which the Mahajan would credit promptly to his account. Several million agriculturists in this country, therefore, carry some money with them for some months in the year. Those, who are not in debt, and this class is comparatively smaller, have larger amount. But even those, who are in debt, would retain some money, which they do not need at once, but which they anticipate they would have to use after a few weeks.

The agriculturists, as indeed other small people, promptly invest their cash at present in ornaments. Where they have cash, which they are likely to require after some time, they are often tempted to lend it out to relatives, neighbours and others on promises of prompt repayment, which are not always kept. Lastly, they carry the cash on their person, or conceal it underground somewhere, with the attendant risk of loss and theft, a risk, which, in proportion to their resources, the people, who are well off and who use banks, can avoid. This is, briefly stated, the problem.

In India the question of hoards has been often mentioned by all classes of critics of India's economic condition. Many misleading ideas appear to prevail on the question of hoards. They have been summarised in a note, that was prepared for the Committee by Mr. Masani. Hoards in the sense of the Arabian Nights may be left out of account, but it must be recognised.

that always the first claim on a man's savings in India is for ornaments on the person of his wife. It may be fortunate for India that women love the precious metals, which are less ephemeral than silk dresses and millinery and shoes, which western women seek. But the cumulative loss on ornaments on the person of women is really heavy. The loss is two-fold. One is the loss of interest, which would have been earned, if the amounts had been invested. The other is the wastage. The wastage from the wear and tear, from reshaping and re-making after some time, the cost of the goldsmith directly in labour charges and indirectly in leakages and from total loss, as when an ornament drops out in a well or river or road has all been reckoned up and it has been stated that nothing remains of an ornament at the end of fifty years on an average. A two per cent. loss approximately therefore, per year *plus* the loss of interest is the heavy price, which India pays for this archaic system of carrying her savings. No immediate and radical remedy is, however, possible for a situation, the cure of which is in the hands of womenkind. Something may, however, be done if rival forms of investment of savings, more attractive and more secure, were created.

345. A part of the savings of the community at any particular moment becomes banking deposits. Sometimes they are on their way to permanent investments and are awaiting such investments. They are held by banks in the meanwhile but the flow being continuous, a certain amount is always there. The other kind of money, which constitutes an important element of banking deposit, is that, which is held pending the moment when it is required for some use. From the point of view of the party, who has this money, banks keep it safe and offer him the additional convenience of prompt payment to his order. From the point of view of the community, the banks mobilise idle money in the expectation that all of it will not be demanded at any time and the withdrawals will be counter-balanced to some extent by the flow of new money coming in. The banks are in practice able to utilise for their own profit and to the economic benefit of the borrower large sums, which would have otherwise remained fallow.

The encouragement of savings must, therefore, become an important objective of state policy. Public opinion has, however, in the past been scattered and disorganized on this subject. The improvement in the standard of life of the people through expenditure on many things has been hailed with delight. Newer and better things are brought within reach and the importation by this country of commodities from abroad going to swell the import trade of the country has been regarded as a symptom of prosperity and improvement. Parsimoniousness in an individual may be condemned, when his expenditure falls much below that of those, amongst whom he lives. In India the man, who saves, has not hitherto been accorded a proper appreciation as rendering a service to the community. It is true that the community benefits incidentally and is willing to pay for the use of his savings, but it benefits all the same. In Europe, campaigns of thrift have been

initiated from the top in those countries, where a crisis called for patriotic efforts. Savings certificates were launched out in the United Kingdom and the campaign was started in a spirit, the like of which has never been known in India.*

346. *The Postal Savings Bank.*—Amongst the institutions for thrift, the place of honour undoubtedly goes to the postal savings banks. The establishment of this system in 1882 will rank as one of the most important benevolent acts of the Government of India. It will be seen from the following figures that the response has not been meagre, nor has it been from those classes alone, for whom this was intended.

Number of Post Office Savings Banks, Depositors and Amount of Deposits.

Year.	No. of Banks at the end of the year.	Number of Depositors.	Deposits each year inclusive of interest.	Withdrawals each year.	Balances of deposits (inclusive of interest).	Interest.
			Rs.	Rs.	Rs.	Rs.
1911-12 . .	9,502	1,500,834	8,78,69,630	6,80,72,516	18,89,85,438	50,87,745
1918-19 . .	10,587	1,677,407	13,45,15,009	11,21,16,730	18,82,44,749	46,87,601
1919-20 . .	10,670	1,760,442	17,74,51,171	15,22,11,384	21,34,84,628	56,46,213
1920-21 . .	10,713	1,877,957	18,84,85,138	17,33,48,050	22,86,21,716	62,19,740
1921-22 . .	10,758	1,958,324	17,72,12,120	18,32,21,237	22,26,24,825	61,51,765
1922-23 . .	10,730	2,043,502	17,69,15,629	16,75,41,713	23,19,98,761	62,99,037
1923-24 . .	10,535	2,089,314	18,38,64,845	16,79,80,436	24,78,83,170	67,08,070
1924-25 . .	10,727	2,164,473	18,15,10,695	17,64,98,958	25,63,94,907	71,20,637
1925-26 . .	11,162	2,317,390	19,78,68,202	18,19,48,345	27,23,14,764	73,99,014
1926-27 . .	11,994	2,518,142	21,17,01,752	18,89,26,973	29,50,89,541	79,20,535
1927-28 . .	12,326	2,606,071	24,00,05,395	20,84,26,748	32,66,68,188	86,71,833

From the above table the following instructive facts emerge. The deposit in each post office is Rs. 26,827 and the amount per depositor is Rs. 126. From the point of view of expenses, the position must improve as the total grows, allowing better spread of direct and overhead costs. The increase is indicated as follows:—

	1918-19.	1927-28.	Increase during the decade.
No. of Post Offices	19,445	21,608	2,163
No. of Post Office Savings Bank Offices	10,587	12,326	1,739

* A permanent institution in the form of the National Savings Association has emanated in the United Kingdom, which emerged during the war and has survived during the peace. It has been suggested by some Provincial Committees, that something ought to be done in India on these lines.

From the above table it will be seen, that there is room for immediate expansion both in the number of post offices as well as in the number of offices, where savings bank business could be done. It ought not to be difficult to devise, particularly in connection with the agriculturists' special deposits, a simpler form and introducing it at every post office, since the volume of deposit, which would have to be dealt with, would not be considerable at an individual office.

The number, however, of savings accounts in India compared to the population falls very much below the number anywhere else in the world. It may be that the illiteracy of the large bulk of the people is responsible for this. It may be that the chronic indebtedness of a very large section prevents them from saving anything in their own right. Whatever the explanation may be, the dearth of saving and the dearth of capital, therefore, for banking and for other purposes is a marked feature of India's economic life. The scope for improvement is probably not very great and it is all the more reason, therefore, that it should be fully utilised.

347. Several improvements can be made in the working of the post office savings banks. They are indicated below. Most of these have been asked for or referred to in the reports of Provincial Banking Committees.

(1) Increasing the number of post offices.

(2) Increasing the number of post offices, where savings bank business could be done and cash certificates will be purchased.

(3) Facility for more frequent withdrawal. Some Committees have suggested unrestricted facility, which would reduce postal savings account to the position of current accounts.

(4) Facility for paying in cheques.

(5) Facility for withdrawing by cheques.

(6) Facility for transferring into one account in the savings bank, money from another account.

(7) The use of pass books and signature in vernacular.

(8) The keeping of accounts in two names.

(9) Simplicity of forms.

(10) Where full time offices could not be established, then offices for two days in the week to be administered by grouping with other places to be opened.

(11) Assistance of the village schoolmaster to be requisitioned.

Many of the above reforms are capable of being effected. Objections have been raised to some of them on two grounds. One is, that it is not desirable to encourage anything approximating

the operation of commercial banks in the activities of the post office savings bank. This argument does not amount to much, if it is urged on the ground of the savings bank acting in competition with other agencies. The Indian joint stock banks are located in few places, and it is hoped that they will expand in future, but for a very long time to come it is not possible for them to cover up the field, and there will be still many places, where it will never pay them to open branches. The savings bank caters for small accounts, often too small to be attractive to the joint stock banks. The savings banks are one way institutions. They borrow, but do not lend. They collect money from people, who would otherwise spend it, or lose it. With regard to this institution's competition with the private banker and money-lender, it has been brought out in evidence that these latter do not always receive deposits. If they keep accounts of parties with them, it is often because these parties borrow from them and because the Mahajan expects trading and other advantages. Nor need the question of interference with the co-operative movement arise. This movement uses advantageously the postal savings bank and has actually sought additional facilities like primary societies depositing up to a larger amount than is permitted by the rules.

348. The other side of this restrictive view is that postal savings banks are for safe custody only and it should not be the aim of public policy to enable them to approximate to the position of banks. Safe custody in respect of money cannot, however, be interpreted as narrowly as has been attempted. Money has to be kept safe, till it is wanted and both in theory and practice, all moneys are wanted by the owner sometime or the other. A short-term investment sometimes grows into a long-term investment, and a long-term one has sometimes to be realised in an emergency. The real hoards in India are idle cash, *i.e.*, cash, which is not immediately required by the owner. Such hoards are more in the hands of small parties than large ones. It is in attacking and mobilising these hoards, that real advance is to be sought. It is not merely in increasing banking deposits but in other directions. If the goal in India is to be the same as in other countries, *viz.*, to reduce the actual cash as medium of exchange to the minimum and to secure the liquidation of most transactions by other means, then familiarising the public with credit instruments like the cheque would be the first step. If the savings bank cannot act as a bank to the small man, has he anywhere else to turn? Information with regard to the taking of deposits by co-operative societies was not complete, and we were informed that the practice varies in different parts. Deposits are taken in such quantity and for such periods as are convenient to the movement. In other words, deposits are taken from the point of view of the benefit to the movement rather than the convenience and the need of the depositor. When the depositor is a non-member, facilities are even more scarce in the co-operative movement, particularly in the matter of current accounts.

The fact then, that other solution is not in sight, would lead one to examine more carefully the question of greater facilities at the post offices. That the absence of machinery of saving is responsible for smaller total capital saved is a conclusion, which finds support in many places in the Provincial Committees' reports. One of them actually suggests, that, if facilities existed, larger savings could accrue in periods of plenty. While the zeal for thrift is justified, any reflection on the Indian cultivator as being extravagant and as being unable to understand the importance of savings, or the use of the money, would on the whole be found to be incorrect. He shares with other classes the weakness of human nature, in which there is greater tendency to spend when money is in hand than when the money is carefully put away in a bank or invested. The balance of advantage to the country and to the small men lies in the direction of the relaxation of the rules of the savings bank and, consistent with safety, in the expansion of facility through them as far as possible.

349. From the point of view of the post office, it has been pointed out that larger facilities would involve the keeping of more cash. To the extent to which this cash would have to be kept actually at a cost to Government, the benefit to Government from the use of postal funds would be reduced. The Committee never were able to examine whether what is paid by way of interest on postal accounts is too much or too little. The suggested obligation to keep larger cash at the post office needs a much closer scrutiny. These offices receive payments with certain regularity under other heads and they have disbursements monthly or at other periods. There is, therefore, the constant inward flow of funds. This would have to be examined with reference to the withdrawals that take place now under the restrictive conditions and the possible increase of such withdrawals, which may be expected, if the facilities were expanded. The difficulty with regard to additional cash would not be real in places, where there is an office of the Imperial Bank or a district treasury. Whether there are, therefore, financial considerations, or considerations affecting the cost of administration, which render it absolutely impossible to secure progress in the direction indicated, is more than any one can say. No facts with regard to this were brought to the Committee, which would justify, therefore, turning down the suggestions made. There would necessarily be many details to be considered. I, therefore, recommend that a departmental enquiry should be promptly set up to look into this matter. But it is urged that departmental and official objections alone should not enter in the decision of the question which involves a much needed improvement in the thrift machinery of the country.

The real consideration against the extension of the savings bank system would be that it collects money in the districts and withdraws it from the districts for use in larger purposes elsewhere, the benefit from which to the locality is indirect and remote. It is in order to take away this reproach, which would be justified in a larger measure on the operations of the savings

bank, that I have made suggestions in para. 301 for other uses of funds, uses more directly connected with the district.

350. Even if the problem of safe custody for money for the agriculturist is solved, the question still remains as to, *whether the agriculturist should be offered a higher rate* of interest to induce savings. The elasticity for supply of money in the case of the agriculturist by the inducement of higher rate, may not be very great, but *primâ facie* an agriculturist, who does not want safe custody for his money, is not likely to be impressed by the rates now offered by the savings bank, in view of the fact, that the rates prevailing in the village and paid by him on various occasions, by his neighbours, and paid by the village Mahajan himself for accommodation by the indigenous banker, are very much higher. If the attention of the agriculturist is to be drawn to the phenomenon of interest, it cannot be drawn at anything near 3 per cent. There is a very strong case for the offer of this higher rate, at all events in the first few years, to genuine agriculturists and in places, where every other method is likely to prove futile. The point would then arise as to who is to pay for the additional cost, how the moneys raised in this manner are to be utilised with safety and yet to cover this high rate of interest *plus* the cost of administration, and lastly how this is to be done without imposing a heavy burden on the state by having to raise the rate for savings bank deposits all round. I recommend the examination of a scheme of savings counter applicable to *bonâ fide* cultivators of land, which will enable them to deposit up to Rs. 25 in village post offices, and which will enable them to earn on every rupee deposited by them and kept for a complete month a specified interest. The deposit would have to be made on certain days and in the presence of other parties, and the withdrawal would also have to be made in the same manner on account of the illiteracy. This scheme is intended to be a supplement to any facilities, which the co-operative movement gives, but it is because the co-operative movement does not give this facility to those, who are not members, and does not give current account facility even to members, that this scheme would have to be devised.

351. *Use of the words "Savings Bank".*—The question arose as to, whether the use of the words "savings bank" should not be confined to the postal savings bank only. Not only the Imperial Bank* and Indian joint stock banks take savings bank deposits, but foreign banks also take them. There is no special security attaching to these deposits, the terms of which are governed by rules made by each institution. These deposits are often paid for at a lower rate than the borrowing rate of the bank for the year. Whatever the term "savings bank" may be in the origin, there

* Since the inauguration of the Imperial Bank in January 1921 its savings bank deposits have increased from 4.12 lakhs to a figure of 10.79 lakhs on the 31st March 1925. "—(Sir Basil Blackett's address before the Delhi University, 1925.)"

is no doubt that it has, through its operation in connection with the postal savings bank, acquired a special meaning and prestige in the minds of the Indian public. It is fundamentally wrong to allow the use of this expression, to start with, by foreign banks. This should be interdicted at once. With regard to Indian joint stock banks, including the Imperial Bank, who take such deposits, it is also necessary to discontinue the use of this term, but in order to prevent any hardship on them from a sudden breach with a practice, which, in the case of some of them, extends over some years, it is recommended that a period of five years should be given to them, after which they would not be allowed to use these words. With regard to Indian institutions, who are not taking savings bank deposits, and who have not hitherto taken them, the prohibition should be absolute.

352. *Insurance.*—Insurance companies in countries other than India play a very important part in attracting the savings of the people and in making them available either in old age, or at death, when they are most necessary. The vogue of insurance in India is new and not yet as wide as can be expected. There seems to be an enormous scope for expansion, and one of the Provincial Committees has indicated that the expansion can take place even in rural areas.

A proposal, which was supported by several Provincial Committees, was that the facilities for insurance, which Government make available through the post office, to Government employees, should be thrown open to the public. This proposal was rejected on the score of possible competition with commercial concerns. We had, however, not the material to compare whether the rates offered by Government were more attractive than the rates offered by private companies. So long as the Government rates are much under the rates charged by private companies, I cannot consider that a case has been made out for rejecting this proposal absolutely. There may be insurers, who may have confidence in a Government policy, who may have knowledge as to the good results of provisions made by Government servants for their dependents, but who may not be willing to risk their money with insurance companies. So long as there are strict limits, by which such insurance is confined to small parties only, and so long as the rates are less attractive than those offered by private enterprise, there would be advantage for some years to come, in allowing the public to participate in the Government scheme. The matter merits a close examination. It may be possible to throw open this advantage at selected localities and the question of wider application decided from the experience gathered therefrom.

353. Indian insurance companies are, under the existing act, called upon to make deposits with Government, a provision, from which British insurance companies are exempted. The demand for regulating the activities of foreign insurance companies is an old demand and the revision of the Indian Insurance Act, we were told, was in hand. If that is so, the additional provision, which is

necessary, is that the money received by foreign companies in India by way of premium should not be removed outside India, and that a certain portion of it, which may be fixed by the legislature, should be retained in India and should be invested in specified securities. The premium from life assurance companies during the year 1929 was as follows:—

	Rs.
In Indian Companies	3,35,00,000
In non-Indian Companies	2,90,00,000

The Indian money market does not get the benefit of the sum, which falls into the hands of foreign companies. Apart from life, large sums are handled by foreign companies in insurance in other directions, such as fire, marine, accident, motor car, burglary, workmen's compensation, etc. In United States, foreign insurance companies establishing themselves are obliged to hold a certain amount of the premium income in the securities of the United States Government. If foreign insurance companies must operate in India and take away the profits, it is at least essential that the use of Indian funds should go to swell the resources of the Indian money market. Measures in this direction are called for, and it is hoped that when the Indian Insurance Act is before the legislature, this will be attended to.

Insurance companies have to invest funds, which fall into their hands. In the United Kingdom, large sums were found by insurance companies to enable agriculturists to buy their own land on the system of an equated instalment. Insurance companies give strength in other countries not only to the market for gilt-edged securities, but also to industrial debentures and land mortgage debentures. In view of the fact that, if measures recommended by the Central Banking Committee are adopted, these two kinds of securities will come on the market, a reform, which would secure the use of Indian funds for the support of these securities, becomes very urgent.

354. *Provident Societies: Building Societies: Benefit Societies.*—There is a large variety of institutions, that collect small sums as they accrue to parties, hold them in safe investments, and give the benefit to the contributors in some form. In India also institutions of this kind have emerged in all provinces, but their vogue is much greater in Madras. In the absence of a definite law regulating the formation of provident societies, difficulties have not only arisen but would increase as time goes on. It is, therefore, recommended that a law on the model of Industrial and Provident Societies Act in the United Kingdom should be passed not merely in Madras for regularising the position of the Nidhis and Chit Funds, but on an All-India basis, laying down sound lines, on which such institutions could be started. These are institutions, that are not insurance companies proper. Nor are they banks, and they cannot, therefore, be brought within the law of either. Lessons have to be derived in this direction from countries, in which the

wage-earning population is much bigger and in which the habit of periodical contribution has developed much more. In the United Kingdom, the law gives certain privileges to Provident Societies and imposes certain obligations on them. From this point of view it is necessary to indicate that the matter has not been examined in detail by the Central Committee.

355. *Hire Purchase: Instalment Purchase.*—The ownership of houses by parties, who have expectation of regular periodical savings, but no immediate capital, has been facilitated by co-operative housing societies, which are working in many places. Whether they are working successfully, or have had financial and other difficulties, we were not able to ascertain. The obligation of a fixed contribution towards the redemption of a debt created for a useful purpose is, however, a very important incentive to save. A Provincial Committee emphasised the importance of the introduction of the hire purchase system for the middle classes, and pointed out that there was great scope. To the extent to which this would apply to necessary articles, it would be a gain, if interest is calculated in the composite instalments at a reasonable rate and if there is not too high a provision for bad debts. It is already employed successfully in the motor trade. The instalment purchase system is a convenience to the buyer. In some cases it enforces a self-denial with regard to expenditure in other directions by putting the claim of the instalment payment prior. But, from the point of view of the community, a machinery, which diverts resources in consumable articles, instead of in the productive field, cannot have the same commendation as other agencies, since thrift and savings imply not an approach to consumption, but the postponement thereof. From the point of view of the community much greater interest would attach to the application of this system to instruments of production such as agricultural implements or a loom or a pump.

356. *The cheque system.*—It may appear strange that measures for the encouragement of the cheque habit should come under thrift institutions, but, as already stated, the root of the trouble in India is the unfamiliarity of the public with credit instruments. That such unfamiliarity should continue and payments for commodities and services should continue to be in cash, is in itself the greatest deterrent to the use of banks. A salutary example has to be set by Government themselves. The withdrawal by cheque from P. O. savings banks already recommended is one measure.

It is, further, recommended that the salaries of all employees above Rs. 100 shall be paid by Government by means of a cheque. It is hoped that private employers would follow suit, particularly because Government have given a great impetus to the use of cheques by the abolition of stamp duty. Such practice would encourage the opening of small current accounts and the retention by banks of sums pending their use by the owners. The recommendation to Government to make payments by cheque will have to be

modified in those places, where banks do not exist, but it could be used with advantage at many places. On the other hand, it is also desirable that Government should accept cheques in payment of land revenue and all other dues. The administrative difficulties in passing the necessary receipts will not be greater than those experienced by private employers, wherever the cheques are paid and receipts are given. Such difficulties should not over-ride the larger benefit, which is to be derived from the vogue of the cheque.

The use of the cheque in itself does not add to the volume of savings except to the extent that larger savings are induced by easier and more extensive machinery, but it creates deposits for banks. Its use will have an educative value, as people will then recognise that a credit instrument can discharge debts in respect of services and commodities by means other than coins and notes.

357. *Gold Certificates.*—The issue of gold cash certificates has been already referred to in paragraph 302. There is not the slightest doubt, that in payments of dowries and presents, a gold cash certificate can be very popular, if leaders of social opinion realise the advantage to the country through its vogue. If such certificates could provide an adequate substitute for ornaments even to some extent, it would be a great gain. The question, whether it would be feasible for such certificates to carry interest at a particular rate is a difficult one, but when the Reserve Bank is established, it may be found possible to deal with it. The idea, that gold certificates could be raised on actual ornaments, the deposit of which could come from the public, was examined, but it had to be rejected, because, in the case of ornaments, it is purely a safe custody operation and if the ornaments had to be returned in the same form, in which they had been given, the gold in them could not be reckoned amongst the assets of the Reserve Bank. The periodical use of the ornaments to the owner would also have to be easy, and without such use, the adoption of the system on a large scale could not be foreshadowed. Gold, which has become a matter of personal adornment, must be left aside for the time being, but, gold, which remains in the country, as a store of value might be tapped by a carefully thought out scheme, which will be attractive to the public and which will be easily intelligible by them and workable.

358. *Intermediate Instruments.*—In surveying the field, one misses in India that orderly sequence of securities, which the investment markets in other countries offer. The orthodox rule is that the yield on investment varies with the risk. This has been cut across in recent years by fluctuations in the price of Government securities on a scale, that was unknown before the war. The investor was frightened, and the short-period bond and the terminable loans had to be created for his benefit. In other words, Government had to adjust, to suit the convenience of the investor. Such adjustment is desirable in public interest, if the rate on Government borrowing is to be as low as possible. In India, between Government securities with their low yield and highly speculative shares, the investor has

no choice. If concerns are prosperous, their shares are immediately capitalised on a basis, which yields the new buyer something in the neighbourhood of 5 to 6 per cent. But the certainty of the same rate of dividend is here assumed, which is not always realised. Capital appreciation to the original shareholders is undoubtedly the result. It was suggested that the Indian investor was after capital appreciation. This would be an altogether misleading idea. There are people with resources, who have also the speculative instinct, but, taking the investor class as a whole, provision cannot be made, unless it is recognised that there are all classes with all kinds of resources, and also that there are people, who would be willing to put a part of their resources in speculative stocks and a large part in securities, where the possibility of capital loss is eliminated. I am not convinced after a very close examination of the subject, that this is a true picture for the west and not for India. What emerges from an analysis is that there is a dearth of intermediate securities, and that the whole range does not exist in India.

There is undoubtedly the attraction of ornaments, of the purchase of land, and of investments in real property not only from conservative people, but from those, who have burnt their fingers. There is a class of people in this country, in whose mind dealings with, or, on the stock exchange appear in the light of gambling. In so far as the stock exchange is the most important instrument of the investment market, there will be no justification for such feeling. It is because those, who consider the yield of the Government stock too low and who do not want to carry on themselves the risks attaching to industry by the holding of shares, have not sufficiently attractive investments. The position of the debenture has already been examined. Wherever such investments exist, they are either not known or understood. No organized efforts have been made to make them popular.

359. The creation of the land mortgage bonds and of the industrial bonds ought to fill up this gap. There would be enormous publicity attaching to these forms, as borrowers, under the programmes created, could, if the matter is effectively arranged, become the most active agents for spreading information about them. The industrial bank would, it has been already suggested, create debentures of concerns, to whom loans are given. Such debentures will necessarily carry a much higher rate of interest. If the flotation of such debentures is made carefully and is successful in the first few cases, it would give a greater impetus to industrial debentures than anything done in the past. The extent, to which such debentures, both those, which have Government guarantee, and those which are floated by the industrial bank for and on behalf of their clients, would be accepted by banking institutions in the country as collateral for loans and advances, would also add to their popularity. There is not the slightest doubt that the creation of these intermediate instruments will materially assist savings, will eliminate the notion that the Indian investor as a class runs after speculative shares, which have a prospect of capital appreciation,

and will render possible the further development of the Indian investment market by institutions of the type noted below.

360. *Investment Trusts.*—These are institutions, which interpose between the primary investor and the industries concerned. The investor is either too conservative, or too rash, or, he is both by turn. An investment, which, at a particular time, is good, may cease to be sound and *vice versâ* with changes in the outlook of industry and trade. Permanent watchfulness over the situation is required, as well as a machinery for securing information with regard to ventures. Experience in the selection of the investment is also a valuable quality, which the average investor cannot hope to possess in the same measure. Apart from all these, the investment trust permits of spreading out the risks in various classes of investment and various industries and trades, so that weakness in one direction, whether it is temporary, or it is the result of one of those periodic cycles noticeable in every trade, would not hit either the income or the capital assets of the concern too hard. Economically the investment trust involves some element of banking and partakes of some aspects of insurance.

The investment trust is a feature of the investment market in Europe and more so in the United States. Since Indian banking has hitherto been modelled on English banking and not on the Continental system, the gap is all the more noticeable in India. The absence of investment trusts may be traced to many causes, amongst which may be mentioned the infancy of joint stock enterprise in the country and the relatively small amount of the country's wealth invested in joint stock forms of enterprise. The large firms of managing agents would also be averse to the establishment of such trusts, whose constant vigilance might not be always helpful or welcome. The appeal of shares in industrial ventures to the investor had been great until crashes came in 1913-14, and later in 1921-22. The decline of prices since the boom time is still continuing. It is even now not certain, if people, who might be content to seek an investment giving them a safe 6 per cent. with no capital appreciation, could safely enter this market.

361. Opposition to the suggestion, that investment trusts should be established in India and could be established, came from the European Chambers of Commerce and from Mr. MacDonald of the Imperial Bank, on the ground, that the investment trust would have to operate in the world market. Mr. MacDonald ultimately abandoned this view.* The foreign " experts " were doubtful with

* *Question No. 7902.*—(Mr. Manu Subedar) With regard to investment trusts, I was much interested to learn from you that investment trusts would be safer if they operated in a wider field?—(Mr. MacDonald) I do not think you can read that into my words. I said they operated very often in the worldwide market.

Question No. 7903.—(Mr. Manu Subedar) By 'world-wide' you meant more than one country?—(Mr. MacDonald) Yes.

Question No. 7904.—(Mr. Manu Subedar) No investment trusts actually operate world-wide in the sense of taking all countries, but they operate in more than one financial centre?—(Mr. MacDonald) Yes.

(Footnote continued next page).

regard to the success of an investment trust in India on the ground, that the prevalent rate of interest was not low enough.* I was, therefore, glad that Sir Osborne Smith definitely indicated, that such rates as prevailed in India did not preclude the possibility of the successful working of investment trusts. Greater reliance in this matter could be put on the view expressed by Mr. F. E. Dinshaw, than whom perhaps there is no one in this country, who could speak with greater authority on this subject. He said:—

"I see no reason why investment companies should not be as successful in India as in other parts of the world. Judging by the course of events on the Bombay Stock Exchange, I should say they would be very successful. Shares and stocks are often quoted at much higher or lower prices than the intrinsic value of the scrip, and the prospects of the trade or industry justify. There are constant bull and bear raids, and these affect not only speculative securities but others, which do not fall in that category. The operations of sound investment companies will have a steadying and beneficial effect. To inexperienced or small investors they will prove a boon. There are a few private investment companies in India, but I am not aware of any large public company. The

Question No. 7905.—(Mr. Manu Subedar) I have before me the advertisement of the First Mortgage Co-operative Investment Trust, Limited, 7, Pall Mall East, London. This is one of the investment trusts registered under the Industrial and Provident Societies Act of the United Kingdom and I dare say there are many other trusts of that kind registered in the United Kingdom under that special Act. They are exempted from income-tax and assisted in various ways. Would these trusts operate very far afield?—(Mr. MacDonald) These investment trusts vary from a first class investment trust to a so-called trust which is merely an operator on the Stock Exchange, but I do not know what this particular trust is.

Question No. 7906.—(Mr. Manu Subedar) So there are several varieties of investment trusts which do not operate in more than one market and they need not be world-wide?—(Mr. MacDonald) That is so.

Question No. 7907.—(Mr. Manu Subedar) In India there are many industries and there is large variation at different centres, and if an investment trust were set up, the conditions would be sufficiently diverse to enable them to beat out the risks?—(Mr. MacDonald) I think so.

Question No. 7908.—(Mr. Manu Subedar) So that there is nothing inherently impossible in the success of an investment trust if it operated in India alone, provided it went to Punjab, Burma, Calcutta, Madras, and so on?—(Mr. MacDonald) No. (Oral evidence of Mr. K. M. MacDonald, Managing Governor of the Imperial Bank of India.)

* "The investment trust in its classical scrutiny relies on the possibility of cheap finance in the capital-market, the trust borrowing at a cheaper rate from the public in the form of its own debentures and preference shares than the yield of the investment securities acquired and held by the trust. It is evident that the rate of interest in India is not and for some time it is not likely to be low enough to warrant the formation of investment trusts. This statement may suffice to answer the suggestions submitted in this respect to the Banking Committee. There are now many investment trusts in existence, which are of a more speculative nature. They have, with not very pleasant results, tried to combine the interest of speculative shareholders in a joint venture, the investment trust buying such shares, which are believed to have intrinsic chances in various fields."—(Report of the Foreign "Experts".)

management of such companies must be in the hands of experienced and cautious men who must also be men of great probity and command the confidence of the public. In collaboration with investment companies outside British India the idea of floating a public investment company in India has been more than once considered and the only objection that has weighed with the would-be promoters has been that under the Indian law an investment company will be paying two super taxes . . . . The expenses of the company must not exceed the very small percentage on the capital and reserves, within which investment companies in other parts of the world have to work. There is no reason why before now an investment company on sound lines should not have been floated and become a success. Since, however, this is so, if the State were to take the initiative in the matter or help those, who are prepared to take the initiative, a great step in advance will have been taken. The present is the most favourable time for forming an investment trust. . . ."

362. An investment trust is merely a link between the primary investor and industrial and other borrowers. Apart from its share capital, it collects funds on the basis of notes or bonds and invests those funds, sometimes carefully spread out. The total operation has to be such as to enable the trust to safeguard its original share capital and to build up reserves. After the reserves have been built up, such an institution can, and does, take more risks. It has to find in this manner a safe margin between the borrowing rate and the yield on investments not only to cover expenses but to give some return on the shares and to build up the reserves. That such safe margin exists in India, cannot be gainsaid. It would not be at all illegitimate for an investment trust, even when it is run on the most careful basis, to expect some gains in the matter of underwriting or capital appreciation. The utility of investment trusts in India would, however, be very great in the direction of bringing capital from abroad by offering its own intermediate guarantee, which is lacking now. An immeasurable benefit to India is bound to grow from the establishment and proper working of investment trusts and the assistance, which they will give to the investor in the creation of intermediate securities, which do not exist now, in providing a channel for investment in industrial and other fields, where the primary investor would be too scared or too ignorant. The investment trust would also assist in carry-over for industrial and other concerns, particularly on issue of additional capital in the form of preference shares or debentures where banks cannot, and do not, venture now. In one way or another, the operations of the investment trust will enrich the Indian money market and will fill up the gap, which is all too noticeable in its present organization. On the other hand an investment trust, if properly organized, might be in a position to attract considerable capital from abroad. Confining itself in the first instance, to debentures and preference shares of all concerns, an investment trust would help the general situation. Its help in solving the banking problem in India would be in the matter of the creation of intermediate securities, increasing

in this manner the capital flowing into industry. The investment trust would link up the entrepreneur on the one hand, and the primary investor on the other hand.

In view of the importance of investment companies, it is essential that a model should be produced in Calcutta and in Bombay. It would be very desirable, if this can be had without Government assistance. One of the difficulties of private enterprise, which was pointed out, was the liability, under the existing law, for two super-tax payments. An investment trust has to work on such a small margin, that this would be an intolerable burden. It is, therefore, recommended, that Government should communicate with the leading Chambers of Commerce in the country and indicate their willingness to exempt investment trusts from the operation of the super-tax. It is desirable, that Government should confer through the Chambers of Commerce with likely parties, who would take the initiative in the establishment of investment trusts, understand their difficulties and give the pioneer efforts a reasonable measure of assistance.

363. *Disposal of Indian Resources.*—It came in the evidence before us, that the volume of Government borrowings in recent years and the rate, at which Government borrowed the money, had considerable effect on the life of the community. Everywhere in the world, Government finance is playing a more important part than it ever did before the war, but in India there is a school of thought, which claims that the effect of Government borrowings was prejudicial to the money market and the trade. Deposits, which were going directly to industry, or in banks, or with the indigenous bankers, or in general investments both in trade and industry, were diverted to Government on account of the superior security and safety. From the investor's point of view, it may have been an excellent thing, and yet from the point of view of the community, it was not. According to representatives of commercial opinion, the money thus withdrawn did not enrich directly trade and industry of this country. It may have enabled public works and other Government requirements to be carried on, but it depleted the funds available to private enterprise. Whether the direct benefit to the public from the expenditure of Government funds was equally great and compensated them for larger burdens being laid on trade and industry, it is difficult to say. But it may be clearly stated, that the process of Government borrowing and spending was entirely independent of any considerations as to the effect on private enterprise. It was directed from the top. Non-official opinion, reflected in our evidence, made a grievance of it and thought, that this was a misdirection of the available resources.

It stands to reason that interest rates payable by private enterprise would go up, if the Government took a larger part of the available money in any particular year. Several Provincial Committees also appear to have noticed this fact.

364. The question, which arises, therefore, is to find out what Government proposes to do with the savings of the people and how

much of these savings, they should use for their capital purposes, and how much should be left for private enterprise. The correlation of Government's capital works with the needs of the economic life of the country has never been definite in India. No consistent policy appears to have been laid down, and it is futile to search in official documents for a definite statement. Before the war, the objects of Government concern were railways on the one hand, and irrigation on the other. Public opinion pressed for more expenditure on irrigation, but British commercial opinion was insistent about the need of larger expenditure on railways. The war upset all standards and the post-war boom destroyed all moderation. There was a riot of capital expenditure in India during the last ten years. The Provincial Governments started capital programmes on an ambitious scale. Railways in many cases could not spend what was given to them. All this was done during years, some of which were not years of revenue surpluses. I am not, however, concerned with the past. I feel, that it is necessary for the future that there should be some correlation between the needs of Government and the needs of private enterprise.

It has been already suggested elsewhere in the report, that Government borrowings in the future should be in consultation with the Reserve Bank, the idea being that they should disturb the market as little as possible. Even the foreign " experts " took an independent view of the subject and clearly expressed themselves, that heavy Government borrowings were likely to have deleterious effects on private enterprise as well as on the growth of banking. If Government offer a rate, not very far distant from the rates, which can be earned by depositors, it stands to reason that some of the bank deposits would be converted into Government securities. It would further make it unprofitable for banks to hold Government securities, as they would have to increase their deposit rates in order to maintain their deposit level and lastly, the banks would lose in the capital depreciation of Government securities.

365. I propose to deal with this problem in two parts. One is with regard to the savings banks and the cash certificates and the utilization of the funds therefrom through the Reserve Bank for being made available to the market and private enterprise and to enable the Reserve Bank to discharge some of the functions, which will be placed on it.*

The question is to determine in what directions the credit of the state should be used to raise funds and which objects would have a more predominent claim on these funds. New objects have been revealed and new instruments will be created under the recommendations of the Central Banking Committee. Amongst these are the debentures of the industrial bank and the land mortgage debentures. The question of giving guarantee as to principal and interest on these bonds depends, as already indicated, on the risk, which is run. Where suitable provision is made for redemption and the valuations and margins are satisfactory, the risk is reduced

* *Vide* paragraph 301.

to a minimum.* It is simply a question of Government lending their credit in this direction and of the allocation of total funds, which Government can raise on their credit, between various competing demands. It must be remembered in connection with this, that Government can raise funds not only in India but abroad. When the Reserve Bank of India is working properly with several branches in other countries, it would provide the proper channel, through which funds can be raised on Government credit in other countries for all uses, for which they are needed.

The land mortgage and industrial bonds are directions, which are necessary to strengthen the economic life of the country, to reduce burdens on the enterprising classes both in agriculture and industry, and to increase their motive for larger production. The difficulty is of the period of transition, because, once the larger wealth production takes place, the wastage would be easily made up and the requirements of the state in other directions would be met. It would be, therefore, necessary to have the question carefully examined as to the directions, in which, moneys raised by state credit should be used. It is essential, that there should be no breach with the past suddenly and yet one can easily ask, whether the limits have not been reached of economical investment in railways. A detailed examination of this is, however, not possible at this place and I, therefore, recommend that at the earliest opportunity the legislature should appoint a very small committee to go into this question. I feel justified in making this recommendation, because, if the requirements of railways and other public works, which have absorbed the fruits of Government flotation in the past, still dominate the situation, the objects, which the Central Banking Committee have considered important, will be starved and the beneficent results, which have been envisaged, will not be realized.

366. It is to a very large extent to be a case of substitution. If these objects are not substituted for those, and more money is to be raised in addition, it would intensify the just complaints with regard to the volume of Government borrowing and the diversion of available funds from private enterprise. It would inevitably involve a higher rate being offered for Government borrowing and the consequent depreciation of Government stock. It would affect the banks, both directly, and indirectly and it would affect private enterprise by raising the rates of loanable money. My justification for raising radical issues relating to Government borrowing, which one would not have looked for immediately out of the terms of reference, is

* A wholesale fall in the value of land sometimes comes about, if the value of the produce goes down and expenses of cultivation remain the same, destroying the surplus. This may be the result of a general fall of prices throughout the world. The authorities of a state can remedy this situation to some extent, if they took a serious view of it. As a rule, since historical times, the tendency of prices of capital assets in the world has been to rise. If capital assets are seriously depleted or destroyed, and interest rates soar very high, the value of land may go down, but the growth of population and modern facilities for savings and many other factors tend to make any serious apprehension in this direction unjustifiable.

that, if the whole problem were not carefully examined, either the great improvements sought in the financing of agriculture and industry would be sacrificed, or the remedy might actually prove worse than the evil.

CHAPTER XX.

BANKING REGULATION.

367. The object of all regulation is to enable the relative rights of parties to be clearly determined and to make provisions, which would prevent any individuals, in the search of their own interests, to interfere with the rights of other individuals, or the common rights of the community. The most important consideration, therefore, in the matter of regulation is that this object should be achieved, and every other plea has to take a subordinate place including the suggestion that a minimum of regulation is required. Interference by law with the economic activities of various sections is only justified, when such interference is sought out in order to achieve a definite public object. There is a wide divergence in the experience of other nations in this direction, as some countries have elaborate provisions in law, and others have managed to carry on with less regulation. Foreign models, therefore, do not help India except in the common principle that, wherever evils are noticed, public opinion and legislative bodies have not hesitated in adding to their law, provisions to counteract them.

The consideration of banking regulation divides itself into three parts:—

(*i*) Matters pertaining to foreign banks operating in this country,

(*ii*) Matters pertaining to the joint stock banks, the indigenous banker, and the money-lender, and

(*iii*) Changes in law affecting banks and their clients and all consequential changes arising out of the recommendations of the Committee.

I.—REGULATION AFFECTING FOREIGN BANKS.

368. *Need for Regulation.*—In a complex society, where rights and obligations arise in many ways between many parties, it is the function of law to assist the economic machine to work smoothly. Law secures the net balance of justice and fairness between persons, with a bias always in favour of the weak against the strong. Human society is hardly possible in the absence of all regulation, but it has been an intellectual pose to postulate minimum interference by the state. In spite of this, in every country, and even in the United Kingdom, the stronghold of this belief in minimum regulation, the state has taken over various services and has provided minute regulations with regard to many departments of life and activity. The liberty of the individual is thus curtailed by the state in the interests of the liberty of all. The characteristic slogan of those, who did not want interference, was, "You cannot make a people sober by an act of Parliament," and yet, under widely different conditions in Russia and the United States,

the manufacture and sale of drink have been rendered illegal. The superior pose of minimum interference is, in its application to India, a cloak concealing powerful forces of vested interests.

369. The foreign banks, which have grown in magnitude in this country, joined through the European Chambers of Commerce in the demand for the Banking Enquiry, largely with a view to secure regulation against what they call "mushroom banks". While regulation is necessary against ill-digested programmes in the hands of incompetent or dishonest persons, in its application to small institutions, it is no less necessary against powerful foreign banks, who, if they were left free in the field would strangle out of existence their Indian rivals by what they call fair competition, but, what would in reality be, from the point of view of the vanquished, unequal and unfair struggle. If regulation seeks the paramount interest of society as a whole, the restraint against some should be in the interests of the many. I, therefore, recommend that:

(1) No bank, which is not registered in India, and whose capital is not expressed in rupees, should be allowed to establish branches outside the municipal limits of ports.

(2) No banking institution registered in India should be allowed to be controlled by foreign persons or foreign company.

(3) There shall be a separate register of shares at the registered office of a banking company, showing Indian holders and non-Indian holders separately. That it shall be obligatory on the directors of the company to refuse all transfers from the Indian register to the European register, but not *vice versâ*.

(4) That it shall not be lawful for any Indian-born person or naturalised Indian, or for a company registered in India, to place his, or their, money on deposit in a bank, that is not registered under the Indian Banking Act.

(5) That every bank, which is not registered in this country, and which seeks a license to work in this country may, on application, be given a license at the absolute discretion of the Minister of Finance. This license would be renewable every two years and the Minister shall have absolute power to refuse renewal, when, in his opinion, in the interests of the country, such renewal would be justified.

(6) Prior to the license being granted, and on the application for the license being made, the Finance Minister, or his authorised representative, shall take an undertaking, which shall be duly confirmed by the board or supreme authority of the applicant bank; to the effect that, in the event of stoppage of payment, or of the failure of the bank, the local assets shall not rank *pari passu* with other assets, but shall be retained for the discharge of such obligations in this country as may have been incurred by the bank.

370. The Banking Committee can only indicate what is desirable. The task of translating it into law in clear and well-defined provisions, which could not be evaded, must fall on other shoulders. The restrictions, which should be imposed on foreign banks working in India, have been indicated in the Chapter XIV. Their economic justification has also been given. Some of them could be secured by administrative discretion, but in many cases legal enactments will be necessary.

Prohibition of branches in the interior by foreign banks and the removal of the existing branches 'ipso facto' involves the provision against their acquiring controlling interest in existing Indian institutions or setting up new institutions of their own ownership under the Indian law. A branch will have to be defined so as to prevent an agency carrying on all the work done at present, and the definition of controlling interest would have to be not 51 per cent. of the shares, but something like 60 per cent. There may be supplementary provisions to implement this, such as separate register in two classes, *viz.*, (*a*) a register containing foreign shareholders and (*b*) a register containing Indian shareholders. Provision will have to be made that a transfer of shares from (*a*) to (*b*) will take place as a matter of course, but transfer *vice versâ* will have to be scrutinised and certified by the directors. An obligation will have to be imposed on the directors of any institution to see that the controlling interest does not pass out in the hands of the foreigners and a periodical declaration will have to be taken from them by the Registrar of Companies* to that effect. It may be necessary to secure a declaration from every Indian purchaser of shares, who seeks transfer of shares in his own name, as to whether he is holding them for himself or in trust, and if they are in trust, whether he is a trustee of Indian-born persons or of others. There would have to be some declaration from the Indian shareholder, that he would not mortgage his shares, or pass out the voting power or proxy to a non-Indian. These are illustrative, but not exhaustive of the nature of the difficulties, which will be presented, but which are not insuperable. Similarly, with regard to the prohibition of the deposits of Indian persons and joint stock companies registered in India in foreign banks, a clear definition would have to be provided, and avenues of evasion would have to be shut out. Some liability would have to be created against foreign banks assisting in such evation, involving, amongst other things, the cancellation of their license.

In the matter of shutting out foreign banks from rediscount and loan facilities from the Reserve Bank of India, the act, which brings that institution in existence, would have to make a provision. It would have to provide also that Indian banks and private bankers, who receive such facilities, are not in working agreement

* After the Bank Act is passed, it will be the new authority designated therein.

or partnership of any kind with foreign institutions, which would enable this regulation to be evaded.

Legal provision would have to be made for instituting a licensing authority and giving it the necessary powers of issue, renewal and cancellation, and of taking action on their own, with regard to the breach of the terms of the license. The terms of the license would also have to be defined and discretion to vary these terms, to alter and to add to them, would have to be given by law to those, in whom such discretion is intended to vest. As already indicated, if the board of the Reserve Bank of India has to do this work, provision will have to be made in the Reserve Bank Act, and the policy, which the Reserve Bank would be expected to carry out, will have to be defined. Failing that, legal powers would have to be secured for the Finance Minister of India, in consultation with the Standing Finance Committee, to carry out all obligations in respect of this license.

371. *Discrimination.*—The suggestion that regulation of foreign banks in India would do economic harm to India, is ridiculous, because the object is to secure India's economic wellbeing in the field of banking, which has an important place in the economic structure of society. It is because foreign holding in banking would perpetuate foreign hold on the economic life of this country, that regulation in different directions is asked for. The object of such regulation, as already indicated, is not enmity towards foreign institutions, but, consistent with minimum disturbance of the present situation, to secure a greater elbow room for Indian institutions. It has been urged that this would involve discrimination. The distinction between Indian and foreign is in India omnipresent in the thoughts of everyone, because it is a reality. In the minds of Indians, it exists, because discrimination has been in the past against them. In practice, it is unavoidable. There is discrimination at present against Indian institutions in the field of banking, in so far as they are subject to laws and regulations, which exist, and the foreign banks are free from these. In the field of insurance, it is much more marked, because Indian insurance companies have in some cases to put deposits with Government and to submit statements. The Government Actuary has, under the present law, certain powers with regard to them. In all these matters British companies are absolutely left alone.

The principle has been already accepted that, where there are protective measures of any kind and the benefit of these measures accrues to any institutions, Indian interests must predominate in such institutions. This is part of the accepted policy of Government. Protective measures in different directions for the benefit of Indian banks have been suggested by our Committee and the link in thought is not too far-fetched, which seeks to secure the reservation of certain fields for Indian banks. In the case of protection to local manufacture, what is accomplished by tariff and special railway rates could be only secured in the case of banking by a reservation. The distinction between Indian and

foreign interest has already thus formed the foundation of many measures accomplished and advocated. Merely on account of its involving discrimination, the regulation suggested herein should not be rejected.

If the benefit of subsidy, which the Indian taxpayer bears, should not go in foreign pockets, it also follows that privileges, such as exemption from taxes, could not be allowed to be used by foreigners. If the manufacturer could claim that he has a prior claim to the market and the purchasing power of the people, and that the market in India should be reserved for him, and if the legislature could act on this principle and pass measures in several directions, is there any reason why the Indian banker should not claim the benefit of the same logic?

372. *India's credit abroad.*—It was suggested by the foreign "experts" that, any regulations affecting foreign banks would destroy international goodwill and effect the credit of India abroad. The credit of India could not be lower than it is. The credit of India is the credit of Indians as a whole, and by intelligent economic reorganization Indians are more likely to gain both the confidence and the respect of the world, than by keeping open the door for exploitation. The nations of the world seek goodwill by reciprocity, but in the case of India, they seek the goodwill of England. In future, that will not be so. It is one thing to say that the nationals of other countries, who desire to have dealings in this country, should get protection, justice, courtesy and consideration. It is quite another to seek that the state in India shall not make reasonable and proper regulations for the economic activities in the country, regulations, for which many precedents exist all over the world. This is in spite of the fact, that in no part of the world the dominance of foreign interests reached the high water mark, which it has reached in India. In no part of the world are nascent interests in such a hopeless condition and exposed to such an unfair and uneven competition as in India. Vested interests and those, whose opportunities for exploitation, will be curtailed in this manner, are bound to set up an outcry. But India must put her house in order to secure her very economic existence. Prosperity for India will be very far off yet and on the principle that charity begins at home, the regulations indicated above seem to be necessary, and the sentiments of the outside world must be left to adjust themselves to the changed order of things. India will still try her utmost to give her co-operation, but any international goodwill is not worth having, if it is hanging on such a slender thread, that it could be withdrawn, if India embarks on an economic reorganization, long overdue.

II.—Regulation affecting Indian Joint Stock Banks.

373. *The Need of a Bank Act.*—Opinion was divided in the Committee as to the desirability of a separate Bank Act. A separate bank act would, however, make the position clear for people, who have to deal with the subject, both on the side of the banks as well

as on the side of the public. It will enable at the time of consolidation to put in various clauses, which are suggested by the majority, and some more, which are suggested by me. It would be necessary to examine the consequential effect of some of these regulations, which could not be introduced as an amendment of sections of the Indian Companies Act, nor merely as a supplement. The principle of joint stock is undoubtedly common between banks and other businesses, but there are serious material differences, which would justify a separate act. In the case of an ordinary joint stock company, business loss or failure through mismanagement or other causes would fall primarily on the shareholders. Where they fall on creditors, the creditors would have become creditors in the course of their business with their eyes open. Those, who give loans to a joint stock company, know what they are doing, and those, who sell goods on credit to them, are not obliged to do so, but deliberately take the risk because of the business advantage. The position of the depositors in a bank is very different. The bank is a *quasi*-public institution, more in the nature of a public utility. As the use of cheques increases, every man of any means would be obliged to keep a bank account with some bank or the other. The failure of a bank has a very far-reaching effect in discouraging banking habit and thus contracting the medium, by which the business of the community is done.*

The need for a special act would be evident in the examination of the regulations, which have been suggested. Thus the relation between authorised and subscribed capital, and subscribed capital and paid-up capital, is a matter, which in the case of an ordinary joint stock company, does not mislead anybody, but in the case of a bank, these figures have been known to take in unsuspecting members of the public.

Similarly, bad and doubtful debts, slackness and error would cause greater damage to the public in the case of a bank. Banks being lending institutions, apart from borrowing institutions, the question of loans to directors, etc., assumes a peculiar position. The expansion of banking has been admitted to be an important purpose of public policy and acted upon already in India through the Imperial Bank by Government. Restriction on branches of foreign banks in the interior, on the other hand, has also been recommended by a section of our committee. The establishment of branch offices of a joint stock concern has hardly any public aspect calling for regulation. Similarly, in the case of amalgamation, liquidation, controlling interest, and various other directions, banks occupy a position by themselves, and a separate law making definite provisions is much to be preferred. The occasion for enacting such law would also lead to the codification of case law on the subject. Several countries in the world, such as Canada, Japan

* *Vide* Report of the Central Provinces Provincial Committee Report, regarding failure of the Alliance Bank, Para. 2286, and Report of the Madras Provincial Committee, regarding the failure of Arbuthnot & Co., Para. 504.

and United States of America, have a separate banking law and have found it useful.

374. It is, therefore, recommended that early steps should be taken to bring under one act provisions not only of the Companies Act applicable to banks, but other provisions scattered in case law or in other acts, as well as the recommendations made by the Central Banking Committee. The opinion of the commercial community should be obtained by Government on specific points. The opinion of the stock exchange and of the Shareholders Association should also be secured. It may be advisable, on material being ready, to hold a conference in order to ascertain this opinion.

All joint stock banks in India would be registered under the Indian Bank Act. The difficulties of providing a suitable definition of a bank were obvious, all the more because no such definition was found in the legislation of other countries. Under the rules made by His Majesty's Government in 1918 for excluding foreign controlled banks of enemy origin, a good description of all banking business was given in the following words:—

"Receiving money on current account or on deposit; accepting bills of exchange; making, discounting, buying, selling, collecting or dealing in bills of exchange, promissory notes and drafts whether negotiable or not; buying, selling or collecting coupons; buying or selling foreign exchange by cable-transfer or otherwise; issuing for subscription or purchase or under-writing the issue of loans, shares or securities; making or negotiating loans for commercial or industrial objects; or granting and issuing letters of credit and circular notes; except in so far as such operations form part of and are for the purpose of and incidental to the conduct of a business carried on for other purposes by the company, firm or individual by whom such operations are transacted."

This, however, does not help, as it would be in law of importance to define what a bank must not do. Foreign banks in this country have combined forwarding, passenger agents and other functions, and one concern combines bookselling, with banking. The tendency of the Indian private banker to combine trading with banking functions has already been noted. It would be essential that there should be provision in the articles of all banks eschewing activities outside banking. Steps should also be taken to secure such alteration in the articles of existing banks. At the time of the establishment of the Bank Act, Government might derive assistance from commercial opinion, as suggested above, and from a more complete information on banking law abroad than we were able to secure in the course of our deliberations.

375. I am definitely opposed to the institution of a license for Indian joint stock banks to commence business. The authority to commence business at present arises under the Indian Companies Act and if the existing provisions are not considered suitable, they could be altered, but, subject to these provisions, there does not seem to be any useful purpose in instituting a system of license for Indian joint stock banks, except as a solatium to foreign banks

in this country that Indian concerns are also under license. The freedom to trade is full and unrestricted to private parties, and in the case of a joint stock enterprise, it arises when the provisions of the law for the formation of the enterprise are fully satisfied.

The membership of the Reserve Bank will be a privilege, which every Indian joint stock bank will seek and ought to be entitled to. That itself will provide the machinery for securing information about banking activities in the country so far as the Reserve Bank is concerned.

376. *Use of the word 'Bank':* The use of the word 'bank' by small concerns, which would mislead that section of the population, which is still backward, in opening operations with unscrupulous parties whom, but for the use of this word, they would not deal with, was brought to our notice. It was suggested that there should be a limit of paid-up capital for a banking institution, and this limit should be Rs. 50,000. Any institution, whose paid-up capital is less than this, should not be allowed to use the word 'bank' or to be registered under the Indian Bank Act. Arbitrary limits of this kind are justifiable only through the practical purpose, which they serve. Experience alone must guide this country, as to whether this figure is not unduly high. I, therefore, recommend that this figure should be adopted, but that the Reserve Bank board should have the authority to recommend registration in the case of a concern, whose paid-up capital is less than this sum, provided they are satisfied from the facts brought to their notice that, with advantage to the public of the district where the proposed small bank is being established, this institution would be able to work satisfactorily.

377. *Capital.*—Discrepancy between subscribed and authorised capital and paid-up capital, was noted as an evil of advertisements, which led some sections of the public to put their deposits in otherwise moribund institutions, the paucity of whose real resources was concealed in figures of authorised and subscribed capital. The imposition of registration fees on the full authorised capital has not proved as deterrent, as was expected. It is, therefore, recommended that in no case with regard to a bank should the authorised capital be more than twice the subscribed capital, and that the paid-up capital should in no case be less than half the subscribed capital.* Uncalled liability on shares is a convenience to shareholders in so far as it enables them to save more money and to pay in, when the calls are made. From the point of view of the creditors of the concern, it is an advantage as there is so much unused capital, which, in the event of the company getting into difficulties, would be available to satisfy them. In the case of depositors of banks, this is an additional security, and in order that this security should remain intact in their interests, it should be illegal for the management to mortgage this asset of the company. These

* New banks should be given four months to call up the capital from subscribers.

provisions fixing the ratio between authorised, subscribed and paid-up capital, are arbitrary, but they are necessary, and it is not expected that they would hinder the growth of banking institutions. Existing institutions should be allowed some time after the Bank Act is passed to come into line with this provision, and it should be considered whether there is some way of avoiding heavy costs, which are unavoidable in connection with changes in authorised capital and in the memorandum, in connection with the operation of the reduction of capital, to enable existing banks to effect such change.

378. *Indian shareholders and directors.*—It has been already indicated that provision will have to be made in law for securing a majority of Indian shareholders. It has been suggested further that there should be also a provision for securing a majority of Indian directors. This is consequential, but it has been considered essential in order to prevent the control of Indian banking institutions passing in law or in effect, into foreign hands. The maintenance of a separate register for Indian and non-Indian shareholders is also clearly indicated and is recommended.

The power of directors of joint stock companies to refuse a transfer of shares and their registration in any particular name, cannot be modified in the case of banks, unless the general principle in its application to joint stock enterprise is sifted and examined. All powers, even when they are based on sound considerations of public advantage are liable to abuse, and it is not improbable that this power is also being abused to keep out parties, who would be able to guide other shareholders with regard to neglect or irregularities in the management. Some harm would, however, be done by taking away this power, as it would disturb the harmonious and peaceful working of institutions, resulting from parties inimical to the concern or to the directors being allowed to become shareholders. In the case of a banking concern, these considerations must weigh even more than in the case of an ordinary joint stock concern, and no change is, therefore, recommended.

379. In connection with dealings in shares generally several questions came up for consideration. One was whether the stock exchange should not adopt a more stringent practice with regard to blank transfers. The public revenue is deprived of stamp charges and the buyer takes certain risks. It is the fear that the turnover of shares would be less, if the practice of blank transfers were made illegal. It is recommended that the Finance Department ought to have consultations with the stock exchange authorities in order to reconcile the convenience of all sections concerned and meet the legitimate objections of the stock exchange against blank transfers being made illegal, by a specific reduction of stamp duty. It is expected that an arrangement of this kind will facilitate the work of the banks in a certain direction. The dilatoriness of companies and their boards in registering transfers submitted to them has been represented as a public inconvenience, and it is recommended that two months after the date, when the transfer reaches

the office of the company, should be the maximum, during which a company must register the share in the name of the transferee.

380. *Provision of Reserves.*—The phenomenon, which attracts marked attention in connection with Indian joint stock banks, more marked when one goes down to the smaller ones, is the struggle in the minds of the management with regard to the allocation of profits. If larger amounts are carried to reserve, so as to reduce the dividend, or make it impossible for a dividend to be given, the share values are affected, and if the share values are affected, the weakness of the bank is advertised and deposits are reduced. If, on the other hand, in order to maintain the share values, or even in order to raise them, with a view to gain advantages on the deposit side, high dividends are given, the building up of the reserves, which is an essential line of safety for banks, is neglected. In the inevitable cycle of business depression and boom, which arises in modern economic life, the building up of the reserves by banks is to be regarded as indispensable. In United States, Canada and Japan, where a special banking law exists, provisions of some kind are made. These provisions can be either limiting the absolute amount of dividend until the reserve is built up, or making it compulsory that a fixed proportion of the profits should go to the reserves. A fixed proportion of this kind would defeat the purpose, not merely because it may come to be regarded as the maximum, but because it would be an unwarrantable interference with the discretion, which would rest in the directors, and the responsibility, which they carry. I, therefore, recommend that it should not be open to banks registered under the Indian Bank Act to declare a dividend exceeding 6 per cent. unless and until their reserve fund equals half the capital, and to declare a dividend beyond 9 per cent. until the reserve fund equals the whole of the capital.

381. There should be a provision in the Bank Act, that would render illegal the granting of loans to the directors of the bank and auditors, or to any firms, of which they are partners. It is essential that the directors of banking concerns should be on the board to help the bank with advice and even with finance. But they should be above the temptation of having a loan for themselves from the institution, the affairs of which they are expected to control. The arguments are of even greater importance as applied to auditors. But the suggestion that a bank should not give loans to companies, in which the bank directors are also directors, does not appear to be sound. In such cases it is the duty of the co-directors to be on their guard and to examine the application for a loan carefully, if necessary, in the absence of the common director. The presence of a bank director on a company in other countries is actually contrived and brought about and encouraged, wherever the loyalty of the common director to the bank is paramount and is prior.

It should not be permissible in law for a bank to make any advances against its own shares.

382. *Audit.*—The existing rights of shareholders in the appointment of auditors are not fully realised by them. The appointment of auditors is, in most joint stock companies in India, the gift of the board. No change of law is wanted to remedy a situation, which lies in the hands of the shareholders. It is, however, essential that the shareholders alone should have the right, not only to appoint the auditors, but to supervise all remuneration given to them. It should not be legal for the management to give to the auditors of the bank any extra remuneration, which is not approved of and confirmed by the shareholders. Auditing of branches is at present not required by company law. Returns are sent up from the branches certified by the branch manager. The purposes, which an audit is expected to serve in a joint stock company, would be altogether defeated, if a third party in the person of the auditor does not look at the accounts. An audit can check visible frauds in account and can bring to light irregularities. The number of auditors available in India is much on the increase and the remuneration, which they stand out for, would also not be excessive. Auditors, who have settled in mufassal centres and in places, where a bank has branches, would be available for services and it seems in this direction, there is much room for improvement. The question of additional cost of such audit was raised. Such additional cost is inevitable, but, as indicated above, the use of local auditors ought to reduce it considerably. The ease, with which non-audited branch accounts would permit frauds in accounts, is so great that a legal provision is required and I recommend that the new Bank Law should insist on all branches of banking institutions to be audited, though not necessarily by the principal auditor, who may be appointed at the annual general meeting.

383. *The form of Balance Sheet.*—The form of balance sheet provided in the Indian Companies Act is unsuitable to the special requirements of banks. A new form is desirable and has been prepared by the Committee.

Balance-sheet as at

Capital and Liabilities.	Rs.	a.	p.	Rs.	a.	p.
CAPITAL—						
Authorised Capital.....shares of Rs.....each	...	...	...			
Issued Capital.....shares of Rs.....each	...	...	...			
Subscribed Capital.....shares of Rs.....each	...		...			
Amount called up at Rs.....per share	...	...	...			
Less—Calls unpaid	...	...	...			
	...	...	...			
Add—Forfeited shares (amount paid-up)		...	...			
				...	...	...
LOANS ON MORTGAGE OR MORTGAGE DEBENTURE BONDS				...	...	...
RESERVE				...	...	...
(Details of separate funds, if any, may be given.)						
LIABILITIES—						
Current and Savings Bank Deposits	...	...	...			
Fixed Deposits	...	...	...			
Debts due to Banks, Agents, etc., fully secured against securities *per contra*	...	...	...			
Debts due to Banks, Agents, etc., unsecured	...	...	...			
Bills payable	...	...	...			
Sundry Creditors	...	...	...			
Unclaimed dividends	...	...	...			
				...	...	...
ACCEPTANCES FOR CUSTOMERS *per contra*				...	...	...
BILLS FOR COLLECTION BEING BILLS RECEIVABLE *per contra*				...	...	...
PROFIT AND LOSS—						
Balance as per previous Balance-sheet	...	...	...			
Less—Appropriation thereof	...	...	...			
Balance brought forward	...	...	...			
Profit since last Balance-sheet	...	...	...			
				...	...	...
				...	...	...
CONTINGENT LIABILITIES						

BALANCE SHEET.

_____ Limited.

_____ *19* .

Property and Assets.	Rs.	a.	p.	Rs.	a.	p.
CASH—						
Cash in hand and at Bankers	...	..	...			
Deposits at Call and Short Notice	...		...			
Bullion in hand	...	.	...			
				...	...	...
INVESTMENTS—						
Gilt-edged or Trustee Securities	...	...	..			
Debentures	...	...	...			
Other items	...	..	...			
				...	...	...
(*N.B.*—It should be stated here that the above-mentioned securities have been valued on the basis that "the valuation is not in excess of cost or market price, whichever is the lower". If the securities stand at a value in excess of that basis, the amount by which their value exceeds that basis should be given.)						
BILLS RECEIVABLE *per contra*				...	..	..
LOANS AND OTHER ADVANCES—						
Cash Credits and Demand Advances	...	...	..			
Loans	...		...			
Bills Discounted	...	...	...			
Sundry debtors and Debit balances	..	..	...			
				...	...	...
(*N.B.*—The following statement should here be appended :—"These Loans and Advances are shown after deducting full provision for doubtful debts." If this has not been done, any balance of doubtful debts not fully provided for should be shown in (3) below.)						
Included in the above-mentioned total are the following :—						
(1) Debts due by directors or officers of the Bank	...	..	...			
(2) Other debts for the repayment of which a director is responsible as guarantor or otherwise	...	...	...			
(3) Doubtful debts not fully provided for	...	...	...			
				...	...	...
DUE FROM CUSTOMERS FOR ACCEPTANCES *per contra*				...	...	...
LAND AND BUILDINGS (AT COST)	...	...	...			
Less—Depreciation written off	...	...	...			
				...	...	...
FURNITURE AND FIXTURES (AT COST)	...	...	...			
Less—Depreciation written off	...	...	...			
				...	...	...
OTHER ASSETS				...	...	...
PROFIT AND LOSS (giving in the case of a debit balance details as far as possible as in the case of credit balance).				...	...	...
				...	...	...

384. The problem, with which the Committee was faced, was, whether information in many directions, which, it was suggested, should be given in the balance sheet, should be insisted upon. It was brought to our notice, for example, that the statement as required by law now distinguishing book debts, in respect of which the bank is fully secured, and those, for which the bank holds no security, was deterrent to the progress of banking. Individual shareholders, whose capacity to comment on the policy pursued by banks in respect of credits may not be always high, are more prone to get unnerved at a figure of unsecured loans in the balance sheet. 'Unsecured' is a technical banking term and does not necessarily mean 'unsafe.' We have, therefore, recommended that this distinction should be done away with in the balance sheet. The next important change from existing practice is the clearing-up of the expressions used with regard to the provision for bad and doubtful debts. It is better that bad debts should be written off and provision should be made for doubtful debts and the total figure of the loans indicated, after deducting such provision. A statement is necessary, where no such provision is made, or the provision made is not adequate. This suggestion is in conformity with practice elsewhere and it is considered to be in the interests of the shareholders themselves.

It will be noticed that the balance sheet suggested also eliminates doubts attaching to the valuation of securities. The principle fixed is a conservative principle, *viz.*, that the valuation is not in excess of cost or market price, whichever is lower. It would be open to bank authorities not to exceed this limit, but to mark down the securities as a matter of policy for the purpose of building up a secret reserve.

The suggestion of many witnesses for different kinds of information to be included in the balance sheet had to be rejected, because, whereas the balance sheet would give information to the shareholders, it would also place this information before the public, and, in particular, in the hands of rival institutions. Indian banks, which are working at great disadvantage in this country against foreign competition, should not be made to publish more details of their activities, which may fall into undesirable hands, than what alien banks have to show in their own country. The balance sheet should be, therefore, drawn up on this basis. It is hoped that, while making a definite improvement on the present balance sheet provided in law, it will satisfy a public need.

A separate statement required under section 136 in the form marked "G" in the Third Schedule of the Companies Act is by no means complete and satisfactory. No object is served in getting out bank figures on a different basis for the purpose of exposing them in a conspicuous place at the registered office of the company and in every branch of the place, where the business of the company is carried on. It is, therefore, suggested that a copy of the balance sheet should serve for this purpose, and obli-

gation on banks to produce a separate statement should be abolished.

385. *Amalgamation and Liquidation.*—It has been already emphasised in this report that the controlling interests in any Indian banking institution should not fall in foreign hands. It is also essential that the central banking authority of the country should be fully aware, if the controlling interest of the bank in the country has been acquired by another bank or by any other party. There should be an obligation in law on the board of directors of banking institutions to give information to the central banking authority in the country, whoever they are under the Bank Act, about controlling interest in their institution having passed out to other people, or about their having a controlling interest in another institution. The object of such a provision would be that the central banking authority of the country would know precisely what is going on and would not have to rely on rumours and indirect information. The Reserve Bank would be interested in the affairs of banks not only in the matter of compulsory deposits, but in various other ways. It would be also expected, as suggested below, to help in the event of a concern getting into difficulties. This information should be, therefore, first-hand and authentic.

With regard to amalgamations in India for some time to come they would be a blessing in the case of smaller institutions. Amalgamation leads to an economy both in management, cash reserve and in many other ways and strengthens the institutions, except where the size of the institutions is already so large that the room for economy is restricted. The Reserve Bank, as the central banking authority, would in all such cases help in the amalgamation with advice. There may be, however, cases of amalgamation, where the amalgamation is the result of the weakness of one of the insititutions, or is being forced on a smaller and sounder institution by a more powerful and unscrupulous bank. It is, therefore, recommended that no amalgamations between banking institutions in India should take place without the permission of the central banking authority. This permission would be withheld in rare cases, but there should be somebody with power to prevent the accomplishment of an object, which would lead to restriction of banking, or to any other public disadvantage.

386. It has now been recognised all over the world that it is not desirable to allow a banking institution to close its door suddenly and abruptly without something being done, because of the reaction on the market generally and the creation of a panic affecting other banking institutions. In the case of banks, sometimes it is not the paucity of assets, but its ability to meet the immediate calls, which causes failure. In such cases a temporary moratorium has been used elsewhere in the world to put banks on their legs again with benefit to all the parties concerned and to the economic life of the country. Such a thing cannot be done in India, unless somebody is definitely charged with the obligation, and also has the resources.

Threads of such policy are discernible in the action taken by Government with regard to the Provincial Co-operative Bank in Burma and by the Imperial Bank at the instance of Government with regard to the Alliance Bank of Simla, by which, pending the prolonged process of liquidation, some relief was made available to the depositors. It is, therefore, recommended that provision should be made, by which the Reserve Bank would be the party, to whom a bank in distress would have to go. If the distress is such that the bank could be helped out of it without a catastrophe, the Reserve Bank will do so. Where the estimated value of the assets falls below the liabilities, there is sometimes room for reconstruction by consent of parties concerned. Where the liquidation is therefore, by the ordinary process of law, or, in the hands of a liquidator appointed by the court, there are many practical and legal difficulties. The public advantage in the case of banks lies in a simpler procedure and in the powers being vested in the central banking authority, by which, if it is at all possible to avoid a disaster, they should be enabled to avoid it. It is, therefore, suggested that in all cases a liquidator should be appointed in respect of banks registered under the Indian law, by the Reserve Bank of India. It would be the Reserve Bank, who will have the obligation of giving such relief immediately to the depositors as may be possible, but this would be a matter entirely of discretion of the board.

387. Many suggestions would be found in the evidence tendered to us demanding meticulous regulation in many directions. Except what is recommended above, none of these have appealed to me, because legal provisions could be no substitute for business judgment and wherever they fetter business judgment in the legitimate activities of the bank, they might do no good. Law cannot decide what is safe and what is unsafe and law cannot be kept up to date with the changing economic conditions, which render unsafe to-day, what might have been quite safe at some period in the past. Putting a law on the statute book involves both effort and time and securing its repeal makes equally a call on the resources of the state. Laws must not be made in a spirit of panic arising out of any isolated catastrophe. Facts revealed in failures of banks, where there was fraud, could not be put right by detailed directions as to what banks should not do, or should do. The tendencies of human nature could not be corrected except by deterrent punishments, where frauds are detected. It was pointed out that at the present moment the obligation to secure deterrent punishment on delinquents in the interests of the community, was not being discharged. A liquidator is interested, where he can add to the assets, which he will distribute, and he is often deterred by the question of cost. The improvement of the general tone of company management, and of joint stock banks in particular, could be secured not by a more stringent regulation, but by a much more stringent application of such regulation as exists. Shareholders, who take keen interest in the affairs of their com-

pany, can render great help in improving those affairs by intelligent and timely comments and warning on the particular policy pursued. But the rights given by law to shareholders can be abused with fatal results in the case of banking concerns, where shareholders file suits for trivial matters, or on the smallest provocation or faulty information. Without interfering with any inherent rights of shareholders, the publicity attached to criminal complaints by shareholders might be very considerably reduced, if the obligation is laid on the Law Officer of Government to examine the subject matter of complaint and to allow a prosecution, only if he is satisfied. It should be also possible to have proceedings in camera before a magistrate, where the complainant is a shareholder and the bank and the directorate are on their defence, until the stage where the magistrate is satisfied that, what will go out to the public will not be the facts on one side only.

III.—Consequential changes in law.

388. As a result of recommendations of Provincial Committees and the recommendations made in the previous part of this report, numerous changes will be called for in more than one existing law affecting the different classes, who will have to deal with banks, and affecting the banks themselves. There would have to be changes in personal law and in the law of joint family and inheritance, eliminating the uncertainties attached to the position of the lender. Laws relating to tenure and laws affecting transfer and other rights in property by the tenant, would have to be brought in accord with the economic need of modern life. The Land Revenue Code in various provinces would have to be altered, providing not only for the payment by cheques, but for summary recoveries, or recoveries of items added to the land revenue as a consolidated demand, and for procedure of revenue courts. Some indications are given in the body of the report with regard to these, such, for example, as will apply to mortgages, including mortgages by banks or in their favour, the registration of mortgages, etc. There will be the consequential changes, if our recommendations are accepted in the Transfer of Property Act and the Stamp Act. There would have to be changes in the scale of court fees and in the general procedure with regard to suits for recoveries of simple debts as well as secure debts, and the realisation of such security by the lender. Change would be also wanted in Criminal and Civil Procedure Code Amendments would have to be made to the Indian Companies Act with regard to the managing agency system, and in the Insurance Companies Act and in the Indian Life Assurance Companies Act. Some recommendations of the Provincial Committees affect the Negotiable Instruments Act. Provision in law would have to be made for various classes of institutions, which collect money from small men. The Committee had difficulty in coming to any useful detailed decisions on this subject, not merely through the lack of time towards the close, but also through the paucity of

working lawyers among its members. Had we been able to put the legal points arising out of the evidence and the Provincial reports before the Law Member of the Government of India and to receive his advice, it would have been possible to make a more precise statement. I shall, therefore, content myself with indicating the gap and with a recommendation that all legal points arising out of the Provincial Committees' reports as well as the majority and minority reports of the Central Committee, should be summarised for examination by the Legal Departments of Provincial Governments and the Government of India.

CHAPTER XXI.

MISCELLANEOUS.

389. *Credit for handicrafts and small industries.*—India is the land of small things in economic matters at the bottom. The counterpart of the small agriculturist, who, in the opinion of competent authorities, is already working on an uneconomic basis and in many cases without any surplus and with the prospect merely of a bare existence, is the small artisan living at the margin and equally exposed to economic and financial difficulties. The nature and variety of these is great in different provinces and they are not the same in all provinces. The conditions have been examined by the Provincial Committees and the undertone of their remarks appears to be, that they have by no means exhausted the description or the analysis into the artisans' conditions. There are those, who have already lost ground in competition with imported articles, or with articles emanating from large factories, and their number must be considerable. There are others in the field of handicrafts, who survive either because machine-made articles do not compete on account of the demand being small and sporadic, or, because they are carrying on their operations out of the way, where commercial organization for the imported and factory-made article has not yet reached, or, because, there are sentimental or religious grounds keeping up a certain amount of demand for certain kinds of articles. There will be also enterprises, not necessarily of the handicrafts kind, but of the workshop kind, which derive their strength and sustenance from their predecessors, having acquired useful plant at a knock-down value. It is merely as an exception, that one would come across a vigorous and prosperous small industry, or handicrafts, which could defy competition of machine-made or imported article. Whatever the reality may be, it is the belief generally held, that small industries will not succeed, which is a serious deterrent to proper finance reaching these parties.

The small industry does not carry stocks or anticipate demand. It has difficulties in securing adequate and suitable raw material and paying for it, and also in selling the commodities produced and realising a fair price. Those, that have skill in manufacture, are called upon also to have skill in buying and selling, and without a proper combination of both, success cannot be achieved. Even where these factors are present, there is no regular machinery for financing, and the finance, therefore, takes the form of advance from the buyer, or of credit from the seller, giving either of these parties the determining voice in fixing the price. The surplus left in the hands of the artisan or of the entrepreneur is thus seriously eaten into.

390. Co-operative societies for the purchase of raw material, or for the sale of commodities, have been indicated and would undoubtedly be a blessing, where they can be started and run success-

fully. Any one observing the life of men engaged in handicrafts, artisans, and small home industries, small workshops and the like, would have noticed that, apart from being at a disadvantage in bargaining in the purchase of raw materials and selling the finished articles, these classes spend an inordinate amount of their time in this matter, more especially in the matter of the sale. In the higher field of industry, it is now definitely recognised that manufacturing and selling are two quite distinct functions, but with the small man in India, these two functions have necessarily to be combined. If the supply of raw material, or the sale of article could, therefore, be arranged either on the basis of co-operation, or on the basis of some central association, authority, or board, undertaking the supply of material and setting up sale depots, not only would the problem of finance be easier, but other conditions would be improved. I, however, take a pessimistic view with regard to the success of co-operative organizations amongst the type of people, whose financial needs are being discussed.

The wave of voluntary preference for home made articles known as the Swadeshi movement, which has spread all over India, must have put more life into these people than all the measures hitherto taken by the state with the intention of helping them.

391. Whatever can be done for this class must be done, because, the fate, which awaits them, when they are thrown out of work, is a hard fate from their point of view and very objectionable from the point of view of the community. Industrial progress in the world is reckoned by the increase in the number of skilled workers inside a community. That is the human standard, which is much to be preferred to the standard usually employed, *viz.*, the output value of manufactured articles. In India whatever progress may have been achieved on the side of the growth of factories, in the matter of handicrafts and small industries, cottage industries and home industries, there has been a serious setback. More skilled labour has been turned into unskilled in the last fifty years than *vice versâ*.

The village economy and self-sufficiency has broken down. More and more imported articles are entering into use even of the villagers. The lighting material has reduced local oil. The imported vegetable ghee has hit the dairy. The imported implements and the much-vaunted motor transport have hit the village blacksmith. In semi-urban areas, many skilled occupations have been rendered unprofitable by the use of the imported building material. There has been no census of production and, therefore, no idea could be given quantitatively of the setback in handicrafts and cottage industries. Official reports review with a great gusto the increase in trade in imported articles, but the distress and human embarrassment to skilled artisans in India, through such imports has not hitherto found prominent mention anywhere in official documents.

There is, on the one hand, a definite suggestion that industry should be created, in which the spare time of the cultivator could

be used.* According to the United Provinces Committee, the peasant outside the more intensely cultivated areas is occupied for not more than two hundred days in the year. All industry requires skill, even if it is not of a high technical character, and the proposal, therefore, is that work should be found for the unskilled in the field of industry. Further proposals take the form of state aid to industry, encouraging the foundation of new industries based on, in the words of the Royal Commission on Agriculture, " the development of new ideas, such as the supply of attractive patterns, careful and thorough instruction in modern processes, finding markets in and outside the locality." I do not think that there is no room for all these. I think in many directions, much can be done, particularly where valuable material is thrown away or wasted, and in the utilisation of waste products of all kinds†. There is also a scope in toy making, but I put forward the suggestion, that protective measures are more necessary for such skilled work, as is still carried on in rural areas, and is being very fast displaced. The tragedy of it is that this process is going on, while there has been a public demand for technical education, and large sums have been spent for imparting such education in institutions. No institution can compete with the home system, which created skilled artisans in India. While much has been done towards technical education outside, the displacement of skilled labour has gone on without any one raising his little finger against it.

392. The tragedy of the artisan in India is not merely in the sense that he loses his independence. It is that he loses the use of the hereditary skill, which he has acquired. One hears that weavers and skilled artisans thrown out of their occupation have migrated abroad to work on plantations. When the economic life of a country is being assailed by forces of this kind, two sets of measures are called for: one, which will maintain the artisan, as artisan and in his independence, and the other, which will enable him to step down to the position of a wage earner, but still engage in some skilled trade, in which he has been brought up. It is the paucity

* The importance of industrial finance is emphasised by all the Committees. The Bombay Committee say that owing to climatic conditions and the prevailing system of tillage India cannot continue to depend on agriculture alone for maintaining the bulk of her people in a decent standard of living and that she must build up industries which may give employment to the surplus and the partly employed population.—(Bombay Report, paragraph 169, United Provinces Report, paragraph 345.)

† The Bihar and Orissa Committee also point out that the pressure on land has reached its limits and can only be relieved by emigration or by an active industrial policy.—(Bihar and Orissa Provincial Report, paragraph 197.)

There is room for pioneer work by Government in new industries which offer good promise of future development but have not been tried.—(Burma Provincial Report, paragraph 294.)

A proper industrial survey of the various districts should be made followed by a persistent campaign to encourage the industries likely to be successful.—(Central Provinces Provincial Report, paragraph 1329.)

of measures in the second direction, substantiating merchants, who would engage these skilled artificers, which is most noticeable in India. If state aid, or any other machinery, cannot reach the artisan himself directly, it would be still useful to help him through middlemen, who will maintain in the country skilled workmen and add to the total of local manufacture.

The question is of preserving what is there, instead of building up something new, and the amount of effort and sacrifice required for preservation is much smaller than that wanted in creating something, where it did not exist before.

I cannot recommend with confidence any special measures for securing finance for the small artisan. I doubt if he would be within the reach of the provisions of the State Aid to Industries Act, *i.e.*, whether any action under such an Act could touch more than the smallest fringe of artisans. The man engaged in small handicrafts is wedded to the district in many ways, and the improvement in his ability to secure finance must follow the improvement in the supply of credit generally in the district,* the closer retention in the district of the savings of the people of the district, greater life and hope being put into the private banker, and calling into existence more local banks, which would understand the conditions. The general measures suggested in this direction elsewhere ought to react favourably on the life of the artisan.

393. *Provincial Committees' Recommendations.*—These were examined by the Committee as a whole and various comments were made on them. I have indicated in the body of the report directions, in which I have endorsed the Provincial Committees' recommendations, differing from the view taken by my colleagues. The responsibility of the Central Committee in rejecting a recommendation by a Provincial Committee was great. I have not rejected any recommendation, lest the further consideration on the subject involved in the recommendation should be shut out. Provincial Governments will have to examine the spirit of the recommendations in each case in its relation to the ideas underlying the report of the Central Committee and will have to act thereafter, as they think best.

394. *Mortgage Credit and Equitable Mortgages.*—There is no subject of our enquiry, on which the unanimity of the Provincial Reports is more evident than on the question of improvement in the nature of the security, which borrowers as a class have to offer, reform in the procedure of borrowing, reduction in the costs of borrowing operation, and reduction in the delays attaching to recoveries by the lender. The general principle underlying herein may be endorsed, but its application would require the modification

* The Bombay Committee have also suggested that banks collecting deposits in the mufassal should also keep in view the internal trade needs of the locality. For this purpose, periodical statistics regarding the total deposits received and the total advances made by different banks in different areas should be collected and published by the Central Banking Institution. —(Bombay Provincial Committee's Report, paragraph 164.)

of both law and procedure in many directions. It is recommended that such modifications should be made. It would require, with regard to agricultural land, a better Record of Rights and greater facilities for getting at the record. It would require the elimination of doubts with regard to title arising from presumptions of joint family, maintenance and other claims, and proof that the loan was for family purposes and used as such. The costs in connection with mortgage transactions are partly stamp duty and registration, and partly legal and other costs, and anything, which the state can do to reduce these, would give relief to the borrower, who bears the whole cost. The willingness of the lender is also influenced by the aftermath arising from default, by the procedure in courts and the delays, which a struggling debtor is able to interpose unnecessarily against a lender. The idea, that costly processes and delays are a method of protecting the borrower, is a wrong idea. The debtor always pays, not only the costs pertaining to his own transaction, but more, because the lender averages out the good debtor with the bad one. A good debtor, therefore, pays more than the costs and it is all lumped up in the composite charge of heavy interest. Banking is, in practice, on one side, a lending activity, and great impetus will be given to banking, other things remaining the same, by carrying out the spirit of these recommendations of the Provincial Committees, which I endorse. It is hoped that the paramountcy of the object in connection with this will overcome forensic obstacles based on legal technicalities. If there is a desire in India for beneficial economic change, India must show her readiness to adjust her procedure and law in directions, where such adjustments are imperatively called for.

395. The system of equitable mortgages by a simple deposit of title deeds is much prized in contrast with the system of legal mortgages. For obscure reasons, this system came to be introduced in the principal ports. The advantage of this system is in the simplicity of procedure, which saves the time, and in the materially lower stamp duty, which has to be paid. Provincial Committees have asked for this system to be extended. The Bombay Committee have asked for power to the Provincial Government to declare areas, in which the system of equitable mortgages would become operative. The system could not be particularly unsafe, if it has been in vogue and has been much prized in eight principal ports in this country. There could be no definite grounds of public policy against its wider introduction, if no suggestion ever emanated that the facilities at the ports should be curtailed. I do not know what first led to this system, but it is said that these facilities were created at the instance of the Scotch bankers, who established themselves at the principal ports and who were used to this system in their country and asked for it. I would much like some research scholar attached to a university to go into the origin of this. As a practical measure, however, if it is good for the ports, it must be good for the interior and for many more places in the interior, instead of for a few selected places. Every place is an important centre of credit

looked at from the point of view of the population of that place. Otherwise it would be of more importance to have this system in vogue, where there is only one banking institution than at the ports, where there is a large number. Like all things, reforms must be on lines of caution. I would, therefore, recommend the widest extension of this system and I would give discretion to the Provincial Governments to make the necessary declarations regarding the places, to which these rights are extended. The proposal to simplify mortgage procedure and to make it cheaper will have to be justified on its own merits in its application to all parties, but banking institutions have a peculiar claim on the support of the state. They may not be expected to abuse the privileges given to them and in their case, at all events the extension of this system to most of the important places in the interior may be recommended, where a Provincial Government for some valid reason is opposed to a wholesale extension.

396. *Bills and Cash Credits.*—Foreign banks in this country have consistently encouraged the idea of cash credit and discouraged the idea of bills. Cash credit involves the relation of one firm only with the banker. If the banker, instead of giving a cash credit, were to discount a bill for the same firm, it would involve, in addition, a third party, *viz.*, the party, from whom the firm has purchased. In the case of European firms, this would involve the name of an Indian seller in some cases. I do not wish to ascribe any motives to those, who have consistently encouraged the system of cash credits. It was probably convenient on the part of the banks to have a single account for a large sum with a large firm, instead of having a miscellaneous bunch of bills sent over to them for being discounted from time to time. From the point of view of the customer of the bank, the cash credit is an advantage in so far as it gives the customer the option to pay in the money at any time, *i.e.*, whenever the goods are disposed of, or when they are shipped and a foreign bill is drawn with the shipping documents and discounted.

The cash credit becomes naturally available to large firms. It was admitted by the representative of the ' exchange ' bankers that when the facility was given in the first instance, no material security existed, but the security came in as the purchases were made, while the goods were being treated and were being despatched. It is in the nature of a clean advance, though the client has expressed the intention of using this advance for a specific purpose. There is no legal liability on him to use it in that manner. The Bank has, as a matter of fact, no control. Only first class firms, therefore, become eligible for clean advances. The smaller firms, —and, therefore, a very large number of Indian firms,—cannot get advantage of this system. Further, if trade bills were coming in in large bulk, the bank would gradually get to know the names of the parties. The system of cash credit prevents this. It is, therefore, at the root of that lack of touch, which has been admitted by foreign " experts " as well as noticed by our Committee.

This situation is a great evil from the banking point of view. The existence of trade bills gives to the banks a self-liquidating asset, which is the best form of investment for them. The cash credit, on the other hand, leads to the elimination of credit instruments, as it enables these large firms to draw cash from banks and make payments for goods purchased in cash. It militates, therefore, against the growth of credit system on sound lines. The ideal credit machinery has all the links together, involving a spread-out of the risks. The growth, therefore, of cash credit gives cause not for rejoicing. It is a deterrent symptom. Its discouragement is essential and the desirability of encouraging bills in lieu of cash credit has been recognised.*

397. I, therefore, recommend the abolition of the stamp duty on internal bills of exchange. The recommendation should be given effect to within a period of five years and as an initial step the stamp duty on all bills of less than one year's usance should be reduced to a uniform rate of two annas per one thousand rupees. But I seriously apprehend this recommendation would not be of much avail. The Provincial Governments, most of whom find themselves in difficult financial situation now, would not be able, on financial grounds, to abandon a source of revenue, however small it may be, and the recommendation might prove to be a mere pious wish. This would be catastrophic, as there is no salvation for Indian banking without the growth of bills, and the immediate reduction of stamp duty, as indicated above, is called for.†

I therefore, suggest that only, where a Provincial Government finds itself in a very tight corner and is unable to give effect to the recommendation for the reduction of stamp duty on bills, it would be better if they were to replenish themselves for the loss from such reduction from a levy *ad hoc* from every cash credit with banks to the extent of Re. 1 per Rs. 1,000 but opinion of banks and commercial bodies can be invited to enable the rate to be fixed.

In the present condition of banking in India, I am averse to every tax on banking operations, because a tax is a deterrent, but a tax is also a very powerful weapon in the hands of the state, and there is every justification, when it is used as a corrective for tendencies harmful to economic growth. To the extent to which the reduction in bills will relieve the customers of banks, a like burden on them in substitution thereof would not mean a departure from *status quo*. On the other hand, if the desirability of

* "Experience in many countries shows, however, that Central Banking depends on the existence of an organized bill market. If the outcome of the present discussions were to be the popularization of the bill of exchange amongst Indian traders and bankers, a great step forward would have been taken. Not only would this facilitate the introduction of reserve banking, but it would assist the linking up of private bankers with the joint-stock banks."—("Banker," January 1931, page 109.)

† Other measures suggested in connection with the hundi are, the standardisation of the form, greater and less costly facilities for them 'being noted' in the event of dishonour, and simpler procedure at law in the event of default.

discouraging one form of accommodation granted by a banker to his customer, and of encouraging another form of accommodation granted by the banker to his customer, is recognised, the tax, which I am proposing, would certainly have that effect. In any case, I am anxious to make sure that the reduction of stamp duty on bills would not be put off on financial grounds. A high stamp duty on bills is burdensome, because the harm to the economic life of the country is very much greater than the benefit to the revenues of the state.*

398. *Reduction of stamp-duty on share transfers and debentures.*—There was a unanimous feeling in the Committee, that transfer charges should be reduced, and I recommend that they should be immediately brought down to four annas per cent. It is further important, that they should be uniform all over India. The issue of bearer debentures, which would not carry any duty, should be permissible with freedom to the holder to get them registered on payment of the fee, the principle being, that those alone will bear additional charges, who desire addtional safety arising out of registration.

Great stress has been laid on debentures as a form of suitable investment for the investor and as a form of suitable loan for the borrower in the industrial field. In order that money may flow freely and with more confidence from the investor to industry, this is very desirable. The handicap to the issue of debentures, however, at present is the heavy duty on the issue of $\frac{3}{4}$ per cent. *plus* charges for registration of the indenture, or trust deed of debenture. Heavy charges on capital operations discourage these capital operations. If the growth of industry in India is considered desirable, then the manner in which capital can flow into industry should be free from a heavy charge. I, therefore, suggest that in the case of industrial debentures, the duty should be reduced from $\frac{3}{4}$ per cent. to $\frac{1}{4}$ per cent. leaving registration charges as they are at present. $\frac{3}{4}$ per cent. may not be a very heavy charge for the issue, if the debenture is spread out over fifteen years or more, but where the debenture is for a shorter period and when it is intended to encourage the habit of borrowing by the debenture method for short periods of two years, three years, five years, or seven years, the existing charges add materially to the interest rate, so far as the borrowing company is concerned.

The question of commercial stamps itself is in the melting pot and the recommendation, therefore, would apply whether the

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Stamp-duty on Usance Hundis.—Usance *hundis* having a period of less than one year must bear a stamp of value according to the prescribed scale which comes to roughly three annas for every Rs. 200 up to Rs. 2,500 and then by steps of Rs. 2·25 to Rs. 10,000 and by larger steps after that. After Rs. 30,000 the steps are regularly Rs. 9 for every Rs. 10,000. In Great Britain the stamp-duty on a bill of exchange is equivalent to only eight annas per Rs. 1,000 and is, therefore between one-half and one-third of the duty in India and Burma and it rises by smaller steps. The Indian Taxation Enquiry Committee in 1926 recommended a reduction of duty in India and Burma. *Burma Provincial Report, para. 340.*

income from commercial stamp went to the Provincial Government, or, according to the Layton scheme, commercial stamps became federal. Without going into the larger questions of relative burdens of taxation, or of the propriety of expenditure in various directions, I would say that it would be found on closer examination, that the reduction of rates might actually bring in the same money to Government because of the encouragement, which it will give to these particular instruments. At all events, it should be tried.

399. *Remittance.*—The Imperial Bank of India has withdrawn the concession which it gave to its customer of cashing its own cheques on any of its branches free of charge, so long as they did not exceed Rs. 5,000. Some Provincial Committees have suggested the restoration of this concession.* The maximum charges, which the Imperial Bank may levy, are fixed by the Controller of Currency and they are as follows:—

Rs. 10,000 and over . .	$\frac{1}{16}$ per cent.
Rs. 1,000 to Rs. 10,000 .	$\frac{1}{8}$ per cent.
Under Rs. 1,000 . .	$\frac{1}{4}$ per cent. with a minimum charge of four annas.

The rates are of course the maximum rates and it is within the discretion of the bank to charge any rate below the maximum.

It is obvious that, on the one hand, through the money order rates, and, on the other hand through these rates Government set the standard, which the banks follow. The purpose and policy behind Government's action hitherto do not appear to have been clearly defined. A reduction of remittance charges all round has not hitherto become an object of state policy, but there is room for considerable improvement, if it is now accepted as an important purpose on the recommendation of the Central Banking Committee.

The creation of larger remittance facilities and of reducing the charges in connection therewith with regard to all the agencies, through which remittance is made, was the burden of Provincial Committees' recommendations. In this matter my suggestions would be brief. I consider that the initiative must come from the top and I have, therefore, recommended that branches of the Reserve Bank should exist in at least one centre in each province, and that all transfers between such branches on behalf of member banks should be free of cost. This will initiate the principle of making remittance free under certain circumstances and the extension of this principle would be secured, either when the Reserve Bank has more branches or when public opinion presses for this concession to be extended by other banks including mofussil agents of the Reserve Bank.

The existing system of telegraphic transfers and supply bills to and from places, where there is no branch of the Imperial Bank of India, is costly. I do not know whether the scale has been

* Refer Bombay, para. 187; para. 202; Bihar and Orissa, para. 202; Central Areas, para 231.

fixed on the basis of actual out of pockets. I fear that the charges at present imposed are more with a desire to follow the market than to give it a lead. It may be true that the Imperial Bank, by the establishment of its branches, has brought down remittance charges between various places, but the existing charges of the Imperial Bank are by no means low. They do not compare favourably with remittances in other countries. Banks, *i.e.*, foreign and joint stock both, are given a concession rate compared to the public by the Imperial Bank, and the co-operative movement for the *bonâ fide* use of its members is allowed the privilege of free remittances. Behind the question with regard to the scale of charges for telegraphic transfers and supply bills by Government appears to be the important question of interests of the Imperial Bank, on the one hand, and of all the banks, on the other hand, as against the public. With the same is mixed up the question of reducing the charges for the post office money order. These charges are very high on small remittances. On large remittances they are higher, and banks get the business, which the post office might get.

400. The ideal to reach is to eliminate remittance charges. According to the Central Areas Committee, " a nation-wide mobility of funds is most vital in this country ". The postal cheque system in Germany and Switzerland referred to by the Punjab Report, is the closest approximation to this ideal. In India the distances are, however, large and perhaps complete elimination may not be possible for long. A systematic attempt should, however, be made towards that end and all auxiliary measures, which would lead to that, must be supported.

The Bihar and Orissa Committee wanted discount on cheques payable through banks to be abolished. Some people prefer to leave the details to be considered by the banks. Remittance is a source of revenue to banks, however small it may be, and, unless by competition between various banks, facilities for free transfer are introduced, there is no hope of an initiative from the banks themselves. In order to set an example to the banks of what they should do in their turn to their own clients, the Reserve Bank should initiate a free transfer suggested by me in paragraph 305. The Reserve Bank should further, immediately after it starts operation, select a number of stations, between which it would give free transfer of funds to member banks through its agent. Real inconvenience and loss in connection with these operations would not arise for it for many places.

With regard to the post office money order system, complaints have been made that the charges are high, and they undoubtedly are for remittances for Rs. 5 and under, the minimum charge being 2 annas. On a remittance of Rs. 2, this will work out at $6\frac{1}{4}$ per cent., which should be considered unconscionable, having regard to the class of poor remitters, on whom it would fall. Most of the Provincial Committees have recommended that these charges should be reduced. I regard that, however plausible the principle of the cost of service may appear, in a department, which

is rendering multiple service, it is most difficult to ascertain with any accuracy the cost for one item. The Telegraph Department has eaten into the Postal Department's surplus for a long time but the question of remittance, which affects the mobility of capital inside the country, is much too important to be lost in the maze of departmental difficulties raised by departmental pundits. I would, therefore, suggest the examination of the question in the light of remittance charges in other countries by an official and a non-official sitting together at a very early date.

It is acknowledged that the heavy remittance charges, lead to the pernicious practice of cutting up notes, a practice, that should be discouraged, when remittance charges come to be reduced. I should like to draw the attention to the conflict of interests between two sections of post office, *viz.*, the money order section and the savings bank section. All progress, in respect of the savings banks, making them genuine banks for the poor people, barring, of course, the function of lending out, have been turned down, because they would affect the money order business of the post office. A transfer from one account into another by means of a cheque, when the accounts are at different post offices, was not supported. Nor does the issue of letters of credit asked for by three Committees find any support on the same ground. It was agreed to by all that money orders should be credited or debited to accounts in the post offices. In respect of letters of credit it was thought that they would lead to frauds and there would be difficulties of identification. These difficulties exist, when letters of credit are issued for higher classes by their bankers and no one has yet suggested that the system should be discontinued, but, when the benefit of a similar system is asked for in respect of poorer classes, these difficulties loom large. The Central Areas Committee wanted that " the post office banks are utilised to the utmost extent for remittance work ". The Punjab Committee was of opinion that " if the postal cheque system in force in Germany and Switzerland could be introduced, it would be of great value to trade and commerce ".*

401. If Government cannot set a better example than this, why should banks, which are frankly business concerns, give up making charges in respect of internal remittance to their customers, who have accounts at more than one branch. As I have already indicated, where composite service is being done, the suggestion that the costs would increase is one which should be accepted with great caution. This question to my mind is a very suitable illustration of the phenomenon in the economic world, where some immediate advantage has to be given up in order to gain a bigger and more permanent advantage, and yet the red tape and official mentality always intervene. Reduction or abolition in remittance charges initiated by Government at the bottom in the savings bank and at the top in the Reserve Bank, would by example and precept

* *See* also Central Provinces Report, para. 1377; United Provinces Report, para. 523; Burma Report, para. 389.

lead to their reduction or elimination all round, starting with the actual customers of the bank and between places where banks have branches. This in its turn would render mobile, money, which at present cannot freely move, and it would be a great source of strength to the economic life of the country, which would react favourably both on Government and on banks.

In the case of banks, a discount has to be paid between two places on a cheque. The cheque can, therefore, serve the same purpose as the letter of credit, but with regard to the post office savings bank, a restrictive conclusion has been reached by my colleagues that " we are not in favour of the postal department developing any new banking business. We have recommended that withdrawal of savings banks deposits by cheques be permitted and that savings bank depositors should be allowed to have money orders debited or credited to their accounts ". I have indicated the balance of advantage in securing the use of cheques, larger mobility for capital inducing larger savings, and in giving greater volume of business, if the post office savings bank could really be to the poor man what the joint stock and other banks are to the better classes. But I realise that I am up against the whole weight of official dogma, the vested interests of the post office itself in their money order income, and the vested interests of the banks, who do not desire post offices to develop current account business.

402. *Use of Vernaculars.*—There is a portion of the Indian population, who are not literate at all, and there is another, who, being literate, cannot read English. While the difficulties of the first section are considerable and can be only overcome with the spread of education, the obstacle in the way of the second group could be removed, if banks were to make arrangements at all their branches for recognising the use of the vernacular in the matter of *hundis*, cheques, and pass-books. The foreign " experts " laid great stress on the infinite variety of the several hundred vernaculars in the country as a ground for pessimism in the expansion of banking, but in many provinces, there are only one or two vernaculars in general use. In any case, it is more probable, that there will be persons knowing another vernacular but not knowing English. Indian banks have already, in their own interests, given this facility to their clients. If there is delay in establishing the Reserve Bank, it should be one of the terms imposed on the Imperial Bank by Government, that such facilities shall be given by them at their numerous branches. When the Reserve Bank is established, it should be obligatory on all its agents to recognise vernaculars.

403. *The Clearing House.*—The Reserve Bank Bill laid down that the management of clearing houses would be in the hands of this Bank. Existing conditions with regard to this are not satisfactory, as will be seen from the following:—

Question No. 7959.—(Mr. Manu Subedar) A complaint has been laid before us that the foreign banks are dead set against Indian banks being

admitted to the Clearing House. Is that within your experience?—(Mr. MacDonald) I have heard of such complaints.

Question No. 7960.—(Mr. Manu Subedar) What have you to say about it? You know that under the Canadian Bank Act, there is a Bankers' Association there, and there are similar associations in other countries, and the rule there is that only those banks that are registered in that country, can become members of that Association and no others?—(Mr. MacDonald) I know of that provision.

Question No. 7961.—(Mr. Manu Subedar) Is there any objection to India following this rule?—(Mr. MacDonald) At the present moment the Clearing House is constituted by original members, who form that Clearing House. It is their business entirely.

Question No. 7962.—(Mr. Manu Subedar) It has, at present, not been formed under any legal arrangement. If a law was enacted governing the regulation of banking in this country and if that law prescribed who shall be the members of the Clearing House, then would that not cover the point? Is there any inherent difficulty in India following such a practice?—(Mr. MacDonald) I do not think there will be any difficulty; but I am of the opinion that you cannot prohibit the members of the present Clearing House from meeting together.

Question No. 7963.—(Mr. Manu Subedar) Nobody could object to their meeting outside the Banking Association?—(Mr. MacDonald) Yes. (Oral evidence of Mr. K. M. MacDonald, Managing Governor of the Imperial Bank.)

The establishment of clearing houses in the provinces and of giving facilities to indigenous bankers, was urged by Sir Basil Blackett in the following words:—

"It would certainly be desirable if more facilities could be given for clearing the cheques of private firms up-country, and the question might well be considered, whether in up-country markets where indigenous banks are of greater importance, the privileges of clearing houses might not be extended to registered private banks of suitable status as well as to joint-stock banks."*

In principle, clearing arrangement avoids the movement of specie and notes from one bank to another. It, therefore, reduces the amount of cash required in use and it saves the cost of the transmission of such cost by eliminating the risks attached thereto. It also saves time to all parties concerned. It would be a valuable means of linking up banking institutions with the Reserve Bank. It is hoped, that, after the Reserve Bank is established, the development of clearing houses in India will proceed on sound lines, as in other countries, but the exclusion of foreign institutions from such clearing houses is indicated as a primary protection. If they are included for any reason, it should be, not as a normal practice, but as an exception, and such practice should not be allowed to be crystallised as a definite and final model for all times.

404. *Nidhis.*—I concur with the Madras Committee's report in this matter. I regard the Nidhis as a very favourable nucleus for the formation of banks. Four of them, according to the Madras report, have already turned themselves into regular banks. Many more might, if the present laxity of the law is avoided, turn in the same direction. After having induced as many of them to

* Delhi University address, 1925.

do banking business as possible, if a number are left out, which must have the privilege of periodic contribution to shares and a partial or complete withdrawal of share capital, a special law may be set up, but the special law should not be a Madras Act and for Nidhis alone. There should be an all-India act on the lines of the Industrial and Provident Societies Act of the United Kingdom. This act should be applicable to all-India in the main, but the rules obtaining in each province might be subject to the approval of the provincial Governments. It is high time that there was a law on this, as all kinds of institutions on a small scale are being worked at present unknown to authorities. Contributions are being levied from many ignorant and poor members of the public for institutions, which have no legal basis, and in which the minimum protection to the clientele is not provided for by law. The experience of other countries in this direction is available. If there has not been a definite demand for this legislation, it is because no particular powerful interest was directly affected. Institutions, which assist saving in any form, are of great importance for the country and they should operate in India under laws based on the experience of other countries in order to prevent dishonest manipulations by individuals to their own advantage and in order to secure some publicity, some audit and some regulation on their operations.

405. *The Chetties.*—The system of banking, which has been developed by the Chetties, both in Madras and in Burma, is one, which has survived long without any serious scandals. It has also shown a capacity to expand and a capacity to adjust to new conditions. They have both current and deposit accounts, regular pass-books and some attempt is now being made to secure linking up with the central banking institutions. The operations of the Chettinad Bank are operations, which would have a place of honour in the banking history of this country. The Chettinad Bank itself with a capital of three crores of rupees is the result of the amalgamation of private Chetty bankers and its numerous agencies have now turned into branches. With regard to Burma, Chetties have put forward various small grievances, which may be remedied, and everything should be done to encourage them in their operations, particularly as in Burma, their methods are not considered either as usurious or oppressive.

406. *The Loan Offices in Bengal.*—These are a peculiar, and in several ways, a remarkable development. It is true that some of them offer very high inducement for deposit and they also recoup themselves by very high rates, which they charge for loans. They have also the undesirable feature of lending out on their share capital and many of them are too small in their total operations. The Bengal Committee's recommendations with regard to them are generally sound. I endorse them. I would, however, go further in one direction. Where the loan office is working satisfactorily, its accounts are audited and it has built up the reserve fund as indicated by the Bengal Committee's recommendations,

and there is nothing against it except that it is charging high rates, it is of importance to make more funds available to it. Increased funds alone can bring down rates. Such increase of funds can only take place, if and when they produce securities acceptable to the institution, which give such funds. If the loan offices of Bengal had an apex bank taking deposits from the public at cheap rate, their purposes would be served. It is, however, not necessary for an apex bank to be there, if the branch of the Reserve bank, which would be in Calcutta, is to have a special officer to look into the affairs of the loan offices and to advance to them against securities approved by the Reserve Bank and against the margin fixed by them, funds, which they can use in their operations. Such facilities may tend to bring rates down. Such increase of resources may not be considerable in volume to start with, but will serve the purpose of eliminating the keeping of much cash, and it will strengthen their position generally. This recommendation is on the basis that it is better to pick up in the existing institutions, whatever is good and to use them as a nucleus for proper banking in course of time than to expect brand new institutions to be set up. The starting of new banks is beset with many difficulties, but the loan offices are there. There are 782 of them and though it is said that some of them have developed weakness and have frozen their resources and are unable to meet the withdrawal of deposits, others are in a sound condition. If the Reserve Bank were to help even two dozen of them and to guide them along the path, when in due course they would become proper banks, a great service would have been done to Bengal, where the prospects of the growth of indigenous joint stock banks have been considerably darkened by reason of the failure of the Bengal National Bank. The skill, which some of the staff of the loan offices have developed, and the extensive local knowledge, which they have, ought not to be lost. They are the local banks of Bengal on a small scale and at present not answering to model conditions. The capital engaged in them is in Bengal, the direction is from Bengal, and it would be a very great pity, if they are not strengthened by the sort of link, which I am suggesting with the Reserve Bank, and given a chance to grow into proper banking institutions.*

407. *Insurance.*†—The question of insurance came before the Committee in connection with the insurance of goods placed in licensed warehouses. I recommend, that it should be an obligatory rule that all insurance of goods in warehouses holding a license from the Licensing Board should be with Indian insurance companies. This is absolutely justified, if Government advance funds for these warehouses and spend the money for a Licensing Board, and for an economic survey and provide marketing facilities, and if Government ask banks receiving assistance from

* The same obligation should be put on the Imperial Bank, if there is likely to be delay in establishing the Reserve Bank.

† For other provisions in connection with insurance, see paragraphs 352 and 353.

them to accept the warrants from these warehouses. The Reserve Bank is not only to be permitted by statute but actively encouraged to make advances against warehouse receipts. Surely after this, Government could provide that goods in warehouses shall be insured with an approved Indian insurance company. There are people, who see discrimination in this, but it is not so. It is a form of encouragement to Indian effort by the transfer of Indian patronage to Indian concerns. Aided institutions are always required to do various things. Institutions, which are under regulation, are to be called upon to conform to regulations and have their freedom to act correspondingly restricted. The reservation asked for is reasonable and is recommended.

It is essential to provide this, because insurance in the last analysis is nothing but money saved in order to meet an emergency. Instead of a party saving it by himself and meeting the emergency by himself, the savings of many are accumulated in order to meet the emergency of any of them. An intermediary organization is created to attend to this business and that is called the insurance company, but in effect it is merely a disposal of savings and from this point of view, I consider, it essential that Indian savings should not pass into foreign hands.

The urgency of such provision would be evident on an examination of the following figures:—

	No. of Insurance Companies.		Premium Income.	
	Indian.	Foreign.	Indian.	Foreign.
			Rs.	Rs.
General (Fire, Marine, etc.) . .	16	135	41,00,000	2,13,00,000
Life	66	36	3,35,00,000	2,90,00,000

408. *Bankers' Association.*—It has been suggested that a common association of all banks and bankers in this country would lead to better acquaintance between different classes of bankers and the discussion of subjects of common interest. It would also, it is hoped, lead to improvement in standards and the imposition of better practices by disciplinary measures against any member found doing anything, which would reflect on the standing and reputation of the whole class. The foreign "experts" desired the establishment of three different associations, such as the Foreign Banks Association, the Indian Joint Stock Banks Association, and the Indigenous Bankers Association, but the Committee felt that a single Association and a common platform would lead to more good.

While recommending that steps should be taken for the establishment of such an Association, I would deprecate swamping of Indian institutions by foreign institutions inside it in any manner. I would also indicate that an Asscciaton of banks and bankers cannot be a regulative authority. Nor can it be entrusted with the function of expanding banking, either in the case of joint stock banks, or private bankers. Associations of banks, like every other Association, when they are powerful, seek the restriction of

numbers. This danger is not real to India in the present situation, but the suggestion, that such an association would take the place, either of banking councils or banking authority, put forward by several Provincial Committees cannot be accepted. The growth of such an Association and its activities will, therefore, have to be watched.

409. *Banking Education.*—In the matter of banking education, the phenomenon, which strikes one, is the absence of any special education amongst those, who are holding high positions in banks working at present in India including the foreign banks. High officials in the banks are either men, who had nothing more than simple, normal high school education, or who had a sound general education. In western countries also the utility of specialised education as a prerequisite has not been established.

Education, however, helps those aspiring young men, who have ambition to get into higher banking after having got employment in a bank, or in anticipation thereof. If they knew something of the theory of banking, it would enable them better to understand the process and the directions of their superiors. Facilities should, therefore, be created for those, who intend to go into the banking line and for those, who have already entered the line and who wish in their spare time to improve their knowledge.

410. The absence of such facilities in India in the past has led to a vogue amongst young men seeking a career to take examinations of alien institutions like the London Chamber of Commerce, the Institute of Secretaries, the Bankers Institute, London, etc. The craze for a certificate or a degree of a foreign institution without leaving this country, has gone very far in many places and is causing a considerable drain of effort and of resources on the part of young people and their guardians, who are actuated with the best intentions, but who are not fully aware of the cumulative effect of their action.

Where there is a demand, the supply is already created by commercial institutes of all kinds preparing boys for these foreign examinations. Better organization in India and a sense of national self-respect has now created commercial courses at various universities, and the Indian Institute of Bankers examination as well as the examination of the Indian Chamber of Commerce. Government, also in Bombay, have instituted examinations for commercial certificate. It is possible that there is much duplication and waste. Consolidation is therefore needed at home, but what is further needed, is the elimination of the examinations of these foreign institutions, which make a serious call on the mind, as well as the purse of a good many young men. I would recommend the universities and the Chambers of Commerce as well as the Indian Institute of Bankers, to put their heads together to consolidate, where there is duplication in the local examinations, and to discourage their staff from going in for foreign examinations. After all, the lead in this matter lies in the hands of the employer, as

really all the effort of the young men is to lead up to a stage, where the employer is pleased with their qualifications or with their work. So long as the employer happens to be a foreigner, so long as the largest number of employments happen to be controlled by foreigners in this country in the field of banking, whatever the Indian public opinion may have to say, the position cannot be expected to be improved. The foreign examinations with foreign standards are not merely stale and secondhand. They involve a homage to alien standard, which is not necessary, when suitable institutions are set up in this country already. They involve a humiliation, which could not be helpful in eliciting good work out of the employee.

411. I am opposed to the grant of scholarship by Government to men, who go out of India, for what is called " higher studies ", in banking abroad. In explaining the ground, why I am opposing this, I wish to state that the amount of Indian money spent in sending out people abroad for studies in various directions is very large and is determined at present by the individual whim and caprice, instead of in the best interest of the community. Nor are the best men sought out from the point of view of the nation. Collectively, the amount spent is so great, that it ought to be possible by curtailing that amount, to set up institutions in this country equally good, institutions, which would give the benefit to perhaps twenty or thirty times as many men as are catered for at present on the expensive programme of foreign studies abroad.

It is desirable to break down the idea that better and higher studies are to be had in a foreign country. It is further desirable that public funds, which may be wanted for many other useful purposes, should not be wasted in sending a stray individual outside, particularly if there is no guarantee, that on his return this individual will be in a position to utilise the knowledge gained by him to his own advantage as well as to the advantage of the community. The recommendation that Government and banks should institute scholarships can only apply to Indian banks, as, apart from the foreign banks being unapproachable by Indian opinion and, therefore, indifferent to its dictates, they have no need of sending out an Indian all the way from here and getting him prepared, when they can pick up one of their own kind from abroad. With regard to Indian joint stock banks, if their assistants go abroad, even if they do not work there, there are certain advantages of foreign travel, which expand the mind and make them much more capable of realising their duties than they would otherwise be. But, beyond that, all expenditure must be justified. They are not likely to spend it, unless the directors saw some distinct gain to the bank, and, as I am recommending in other parts of this Report several more desirable forms, in which Government should encourage Indian joint stock banks, I do not recommend that Government should spend any funds on sending out young men abroad to learn banking.

We have examined facilities at the Sydenham College of Commerce, Bombay, for theoretical training in banking, general economics, accounts, mercantile law, etc., which would prove of very great value to those boys, who have a chance of going in the service of a bank. The knowledge acquired by them in this manner, added to the practical training, would, in the case of some of them, if they had it in them, open the path for reaching the highest positions. The introduction of commerce degrees and the establishment of institutions for commercial training has been a live topic at the centres of several universities and some progress has been made.* If middle class boys must have a degree and must spend four years at a college, there is not the slightest doubt that, those of them, who expect to be absorbed in general employment not merely in banks, but in joint stock companies, would be better advised to have a commercial degree than an ordinary arts or science degree, but too great a stress must not be laid on what a college can impart. A banker may not emerge from a college like a doctor or an engineer. There will be people, who would doubt whether even a college for professional training could, or, as a matter of fact does, give all that would be called for in practical life. Willingness to serve well is assisted by the ability to understand one's function, when a man possesses a sound working knowledge about a bank and its relation with its clients. The superior staff, whether in a bank or elsewhere, emerges out of those, who have the willingness to serve, who have not merely the ambition, but the readiness to do hard work, to gain the confidence of the superiors and to keep themselves at all times fully qualified for selection to a higher post, when opportunity occurs. Emphasis is needed, because, preparation in a college, while it may be helpful, is not indispensable. Speaking generally neither in India nor anywhere else have men, trained in the field of banking in a college, risen to the top, or risen quicker than others.

412. As already indicated, the foreign banker, who looms large on the horizon in India, can in very few cases claim any special education. It is reliability, for which the superiors in a bank look, when they engage young recruits. It would appear that the Board of the Imperial Bank found it difficult to secure from several thousand applications a sufficient number, who could be trained up to take charge of branches as fast as they could be created!† The difficulty is partly social and partly economic. In other countries young men enter banks on the personal recommendation of parties known to the management or the bank directorate. The reliability part is satisfied both from the antecedents of the person as well as from the social standing, in which the family of the candidate is held. With the growth of Indian banks and of Indian directors, so many men of sound education would come on the scene, that the problem would be of selecting

* *Vide* statement on page 406.

† *Vide* footnote on page 123. Speech of the Chairman of the Imperial Bank of India, Bengal Circle, in August 1921.

Statement of candidates who offered themselves for the B.A., B.Sc., and B.Com. degrees.

Name of University.	Class.	1916.	1917.	1918.	1919.	1920.	1921.	1922.	1923.	1924.	1925.	1926.	1927.	1928.	1929.	1930.
1. Bombay . . .	B.A. .	780	1,201	1,393	1,825	1,470	1,268	1,205	1,138	1,204	1,437	1,781	1,515	1,475	1,523	1,494
	B.Sc. .	55	77	75	102	121	121	180	206	316	422	560	711	772	870	933
	B.Com. .	50	75	91	106	83	55	52	57	77	96	129	133	129	99	153
2. Calcutta . . .	B.A. .	...	...	...		...	...	...	2,809	2,854	2,624	2,978	3,117	3,430	3,659	3,511
	B.Sc. .	...	...	...	...	...	...	...	668	816	969	1,188	1,240	1,244	1,140	956
	B.Com. .	...	...	...	.	...	...	...	26	103	108	134	111	105	100	129
3. Allahabad . . .	B.A. .	...	...	..	...	..	..	..	...	...	628	698	756	240	299	340
	B.Sc. .	...	...	...	...	...	...	...	...	...	250	273	242	119	134	148
	B.Com. .	...	...	...		...	...	...	...	...	15	50	83	8	18	37
4. Punjab . . .	B.A. .	...	...	...	...	...	...	...	...	...	...	...	...	...	2,015	2,192
	B.Sc. .	...	...	...	...		...	...	...	...	...	...	...	...	169	139
	B Com. .	...	...	...	...	...	...	...	...	...	...	...	...		...	35
5. Lucknow . . .	B.A. .	...	...	..	...	...	...	117	99	122	125	142	150	171	162	161
	B.Sc.	...	...	...	...	...	...	40	56	67	64	51	82	76	92	94
	B.Com. .	...	...	...	...		...	13	27	42	52	32	39	36	26	34
6. Agra . . .	B.A.	...	...	...	...	...	...	...	...	...	...	...	...	686	842	935
	B.Sc. .	...	...	...	...	...	...	..	...	...	...	...	...	156	180	233
	B.Com. .	..	...	...	...	...	...	..	...	...	...	...	...	81	71	83

from amongst them and of rejecting. The economic difficulty is partly from the fact that candidates for bank employment are already married and expect an initial salary to support their family in a certain standard. It is not always that banks can pay boys, who have never done any work before, and who are unused to even the routine of commercial business, an initial salary on this basis. That the initial salary given to a new English assistant in a bank is altogether beyond the Indian standard, has been noticed not merely from the point of view of Indian recruits. There is no cure for this situation, until Indian banks increase in number and fix reasonable standards, having regard to all these considerations. Every well-organized bank is anxious to have a proper staff and the process of elimination, selection and promotion would constantly be going on, by which men, who have shown themselves capable, are gradually taken to do more responsible work as opportunities occur. What is wanted in India is a few models at the top amongst the bank managers, who would by their example silently guide the aspirants. What is also required is the "esprit-de-corps" at the bottom amongst the staff, who would put loyalty to the institution, they are serving in the fore-front, and would seek the fulfilment of their ambitions in the advancement of the concern. Whether it is true or not, that the biggest engineers have been thrown up from the workshops, it may be asserted with confidence that the biggest bank managers have grown in and with their banks.

CHAPTER XXII.

SUMMARY OF RECOMMENDATIONS.

The association of foreign " experts " in the enquiry was an unusual and unprecedented procedure.

The Committee did not receive full information and proper response from parties, to whom questionnaires were sent.

The problem before the Committee was two-fold, *viz.*, foreign control of banking resources, which was growing and menacing Indian institutions, and the orderly advance of Indian banking including the filling up of the gap in internal banking. It was impossible to treat this topic without making this distinction at every stage.

There is more than ordinary parallel between the problem, which the Mercantile Marine Committee had to examine and which our Committee had to examine.

It is impossible to deal with the problem on grounds of pure finance. Even if banking were regarded as a public utility service, regulation would be unavoidable.

A national policy is needed for building up Indian banking, not only for releasing this country from the dependence on foreign institutions, but for retaining profits and experience in India. Unless the atmosphere is improved, Indian enterprise in banking cannot prosper.

On considerations of pure finance many measures, which were taken by Government in this country, would have been condemned, but such considerations alone cannot determine policies, in which immediate good is sacrificed for ultimate good and private interests are subordinated to larger interests of the community.

In many places cultivation may be regarded as a mode of living for the agriculturist rather than as a business.

The question to ask is, whether the agriculturist has any surplus after paying land revenue and expenses of cultivation, including his livelihood on his meagre standard.

Such surplus is the basis of land value on the one hand, and of the credit of the cultivator on the other hand. Where the surplus is entirely absorbed in payment of interest charges, the motive for improvement and larger production is destroyed. The reduction of interest charges payable by the agriculturist becomes, for this reason, a matter of importance to the community. Delays in necessary economic reforms from objections raised by officials, landlords and other vested interests, should be avoided.

Financial help to the agriculturist in any shape or form could only bear fruit, when there is an active agricultural policy, the aim of which is to spread education, improve the general conditions and status of the actual cultivator, and relieve him from burdens or hardships by suitable changes in law and administration.

Changes in law should be invariably in favour of the actual cultivator of the land.

Restriction on transfer of land by the agriculturist reduces his credit. Everything must be done to strengthen the title to the land, which a man cultivates, so as to improve his sense of property and to give him motive for larger exertion and production, and improve his borrowing power.

The question of tenures should be examined by the Minister of Agriculture in each province forthwith and improvement effected, starting from the class, which has the smallest rights, *viz.*, the tenant-at-will.

It is desirable that all disabilities of tenants in respect of transfers should be done away with.

The figure of rural indebtedness in British India has been estimated by the Provincial Committees at Rs. 876 crores. The Provincial Committees themselves have expressed doubts as to the reliability of the results secured and the figure appears to be understated.

If ascertained, the figure would be useful not merely to show the amount engaged by moneylenders in this, but what additional amounts may be necessary to bring down the rate of interest.

It was not possible to say, from facts gathered, whether indebtedness was increasing or diminishing. There is reason to believe that the man, who actually cultivates, is in a worse position now than he was. The general deterioration in the condition of the agriculturist would also affect those, who are his bankers.

The burden on the cultivator is in respect of revenue, or rent where he has to pay it, and interest charges. Where the debt has been of long-standing, interest payment approximates to rent. The relative position of the various demands of the cultivator, which have to come out first from his produce, raises the general question of distribution.

All measures recommended by the Provincial Committees calculated to reduce or limit the enhancement of what is payable by the cultivator to the state, to the landlord and intermediary, and to the moneylender, should be closely examined.

Measures for the reduction of interest would not improve the condition of the cultivator, if he is exposed to enhancement in other directions.

Ejection for non-payment of rent, or under a decree by a moneylender, has the same economic consequences on the cultivator. Since ejectment involves economic distress and a change of status. measures must be taken to improve the lot of those, who are rendered landless.

The position of the Mahajan as universal financier in India for the agriculturists is brought out by the Provincial Committees.

Public opinion in India has been in favour of measures for making available for the agriculturist long-term accommodation at a reasonable rate and on a reasonable security.

The warning given by the Royal Commission on Agriculture against easy credit being a blessing to the rural population, should not be exaggerated, but should be interpreted as a necessary caution in measures, which may be devised.

The object of state policy should be to extract the cultivator from the morass of heavy interest rates, semi-slavery and helplessness, and lead him to a position of solvency and freedom from debt.

So long as the cultivator is left free to borrow from outside sources, the utterance of superlative caution against facile credit, even when the sources are organized at the top and work under carefully devised rules and periodical accounts and examination, causes confusion and is not helpful.

The idea that the cultivator would borrow much more at cheaper rates, than he is doing now, cannot be supported. Facility for borrowing and elasticity in methods could not be greater than those of the moneylender, where there is suitable security or certainty of recovery.

Heavy overload of interest is undermining the independence of many agriculturists and measures are necessary to stop this.

The number of agriculturists, who are free from debt, should be increased and as many of them should be put on the path towards such freedom as possible.

The supply of capital in agricultural districts is inadequate. Inadequacy is demonstrated by the rates, which are charged for loans. The Agricultural Loans and Land Improvements Acts, while indicating Government's recognition of the obligation towards the agriculturists and doing good to those, who come under their operation, are not calculated to cover the field, or obviate the need for new measures.

Credit requirements for short-period, as estimated by the various Committees, appear to be under-stated. Supplies both from Government and from co-operative movement, are a very small fraction compared to supplies of capital from the Mahajan. What is available from all the three sources, is also inadequate.

The co-operative movement can never replace the moneylender in general, and the agriculturist moneylender in particular. Steps should be taken to bring down money rates all along the line. This will affect all contracts, including those between the agriculturist moneylender and his client.

None of the existing agencies possess all the ingredients required for developing a successful system of long-term credit.

There is no special object in land mortgage credit being made available only through the co-operative movement.

Funds for mortgage credit should be raised by debentures, but it would not be easy for private enterprise to do so, unaided.

It is recommended that guarantee by Government should be given with regard to principal and interest, but the risk of loss to public funds would have to be reduced to a minimum. Therefore, the guarantee of principal and interest on debentures of small land mortgage banks by Government is not recommended.

Special land mortgage banks would be justified, if the turnover was sufficient to enable suitable staff being engaged, but there is no adequate reason, why the work could not be entrusted to co-operative central banks and to branches of commercial banks.

Guarantors are not likely to come forward, unless they have full confidence in the institution, through which land mortgage funds are lent out.

The funds raised by the credit of the state should be passed to the primary producer under definite rules and through the intermediation of large and reliable institutions.

In order to work the scheme on a sufficiently large scale and to safeguard the interests of Government, who guarantee debentures, a land mortgage department would have to be instituted in connection with the Reserve Bank to do the following:—

(1) To appraise the requirements and to put forward at a time suitable land-mortgage bonds, guaranteed by Government as to interest and principal.

(2) To make arrangements at all intermediate periods for the sale of these bonds to the public and to provide for purchase by the investor on instalments on a suitable basis.

(3) To distribute the amounts raised equitably between the various provinces, having regard to their needs and also to the extent, to which guarantors are forthcoming in each province.

(4) To administer a sinking fund and other charges and to distribute the interest on land mortgage bonds.

(5) To deal with all agents, whether co-operative banks or commercial banks, through whom the scheme is to work.

(6) To make fundamental rules for the administration of the scheme and to see that these rules are carried out by the agents.

The Reserve Bank would also be able to place land mortgage debentures guaranteed by Government, on foreign markets.

If a land mortgage department is created with the Reserve Bank, there is no need for an apex land mortgage bank in each province.

Valuation of land would have to be secured by special officers and, according to conditions, a margin of 40 to 60 per cent. would be kept.

The Reserve Bank should cover itself for the expenses, and its rules should allow the intermediate bank also to do so.

As funds would not be unlimited, the benefit should go in the first instance to cultivators, whose old debts could be substantially reduced by cash repayment, and who would have the capacity to repay the new loans.

Collection of equated instalments with the land revenue should be facilitated.

It is not desirable, that funds raised by Government guarantee should be lent out by land mortgage, or other banks, directly to the borrower. The co-operation of local Mahajans should be secured by creating a class of guarantors.

The aim should be not to supplant the local moneylender, but to use him as a basis for raising the credit structure, and to secure for the smooth working of the scheme his local knowledge and co-operation.

The guarantor would be called upon t put a fixed deposit, which would be returnable to him only after the loans guaranteed by him have been recovered. The guarantor will approve the party and the amount of loan. The transaction would be direct between the bank and the borrower, but the guarantor would undertake to indemnify the bank against any loss in connection with the loan.

The intermediate bank would lend out, in the first instance, five times as much as the guarantor's deposits. The guarantor should make from 1 to 1½ per cent. on each loan, which would give him thus on his own money a return of from 11 to 13 per cent.

As the legal position would be considerably cleared, and the cost and delay in connection with the process of recovery would be very much reduced, he may be reconciled to some reduction on what he is making now, provided his status in the district and amongst his fellowmen is thus maintained. The aim should be to harness him in the service of the community.

It is a composite scheme aiming to secure cheaper and larger credit to the actual cultivator, enabling conversion of old debts to a lower rate and allowing of the risk being reduced to a minimum through the guarantee of the local moneylenders.

The benefit of the scheme can only accrue, where the actual cultivator has a clear right and title in the land.

Restrictions on transfer of land purporting to be in the interests of the agriculturist, are objectionable in principle, as they obstruct the free mobility of capital assets, which in its turn prevents the free mobility of money capital.

The position in Bengal with reference to parties between the state and the actual cultivator, and with reference to intermediate capitalisation, should be examined.

Besides the ascertained value of land behind the loan given, there will be the assurance of the guarantor and the cash margin

deposited by him. Such conditions alone will secure money being raised on the cheapest basis, *i.e.*, on the highest credit of the state. On this basis alone can the problem of rural indebtedness be tackled on a large scale.

Existing land mortgage banks are inadequate and unsatisfactory.

Increase in the volume of credit must be large enough to make an impression on prevailing rates of interest. Economic action in the district on this basis would react on all money contracts, if it is undertaken in earnest.

There is need for orderly marketing. The financial weakness of the cultivator compels him often to sell at a disadvantage, either by prior arrangements, or by having the sale through certain parties, who may be his creditors, or at a time when everybody else is selling.

The penetration of wholesale firms in the interior supported by cash credits from banks, has weakened the local trader and has harmed the cultivator. Forces of competition among buyers are not as strong as they should be at many places.

The benefit of every improvement by larger production may be lost to the agriculturist through his inability to secure the full price. The need in India is to organize markets with reference to the convenience of sellers, who are many, and who are in a weak position.

The establishment of markets in the interior would require administrative machinery for preliminary survey and subsequent regulation.

There will be no justification for interfering with the field of marketing as it is at present, or for incurring expenditure from public funds, unless the aim of Government in effecting reforms was clearly defined.

An economic survey, marketing officers, licensing boards, licensed warehouses, financial aid to such worehouses, and arrangements for grading and for pooling, collectively constitute a programme too ambitious and costly for this country.

Standardisation of weights and measures should be undertaken. It is desirable to effect only one change on the all-India basis by careful previous preparation, dissemination of the necessary information, and punishment to delinquents thereafter.

The cultivator should be assisted in all his difficulties, such as, receiving better price for better material.

The prospects of the success of the co-operative sales societies are not bright. Even if reliable and competent managers were available, the power of the co-operative sales societies to withstand the agents of the large buying firms assisted by cash credit from the centre, will not be greater than that of the small trader, who has receded from the attack.

Warehouses in the interior are necessary and would be helpful, even if they assisted the local trader, if not the primary producer, but they can only come in existence, where the commodity can bear all charges in connection with them.

The whole question of the working of warehouses, which must cover the costs and secure actual profit, would require to be experimented upon. Advancing funds by the state cannot be justified, except in an experimental and pioneer stage.

It is not the business of railways to engage public funds in setting up warehouses.

Expenditure on grading by officers of the licensing board would not be justified, except where it is an experiment to establish a model.

Effective pooling would enormously increase the power of the seller, but the establishment of the pool in India on the voluntary basis is not expected. The initiative would have to come from the top. It would be an experiment in socialism, the success of which will depend on many factors.

If a pool were concerned, not merely with selling, but also the quantity produced and the area engaged in such production, jute, which is India's monopoly, offers the very best field for the experiment.

Large sums are being spent by the state for advancement, and regulation of, the co-operative movement.

Only a small fringe of the rural population have come within the scope of the co-operative movement, which cannot be expected, within the next ten years, to embrace even half the rural population. Other measures for the benefit of those, who are outside the movement, are, therefore, imperative.

Acceptance of, and adherence to, the principle of unlimited liability by the cultivators, generally, must weaken as education spreads.

Public opinion amongst the members of the co-operative movement has not proved strong enough to enforce the principle of corporate responsibility and prompt payment, even of the interest on the loans outstanding.

The co-operative movement would appear to be supplementing the finance provided to the rural districts by the moneylender, rather than supplanting him.

Under existing rules, all requirements of members are not met, leaving, as in the Punjab, 40 to 60 per cent. of them in debt to the moneylender.

Periodical valuations of the assets of the primary societies, provided in the rules, does not appear to be done.

If confidence of those, from whom finance is being received, is weakened, the progress of the movement would be slow.

Direct assistance by Government to a small extent and indirect support in the concessions to the movement, have created the feeling,

that the moral authority of Government is behind the deposits of the co-operative banks.

The amount of finance in the hands of the co-operative banks at present seems to be more than adequate for their needs, but, for the next stage of progress, the maintenance of public confidence and of the confidence of the Imperial Bank and depositors is important.

The movement is fundamentally a means of securing from the centre of the money market and from those, who have savings, cheap finance and making it available for the rural districts.

Compulsory purchase of shares and compulsory deposits from borrowing members do not represent real thrift.

Facilities for fixed deposits and for current deposits to members and non-members are not uniform and are not always available at all co-operative institutions. To this extent, they do not fulfil the requirements of the public as a nucleus of thrift machinery.

The co-operative movement has not supplanted the moneylender. Debts to the Mahajan are in some cases, greater than the debts to the society.

Indian joint stock banks are jealous of the concessions enjoyed by the co-oprative banks. Exchange banks take call money, but do not always give call money to the co-operative banks.

The Imperial Bank's decision to curtail facilities given to the co-operative movement, when there has been neither loss nor default is not justified, because the co-operative banks do not use the cash credit facilities given, but merely derive support from them in case of need.

Co-operative paper, having been recognised as suitable for the Reserve Bank, the withholding on the part of the Imperial Bank of such facilities against the *pro note* of A class societies endorsed by the Provincial Bank is unduly restrictive.

Absence of such facilities and unduly conservative rules with regard to liquidity, have compelled co-operative banks to take money from the public by way of deposits and put large amounts in Government securities, instead of making them available to agriculture. The rules for liquidity requirements and for investments need revision.

It would be desirable to establish a separate department of the Reserve Bank to deal with the co-operative movement, to keep the necessary information and to meet their requirements. There will be an official in such department to watch the movement and point out its weakness from the economic and strictly banking point of view.

For the protection of the weak against the strong and to safeguard the interests of the agriculturist, who is in debt, a simple Rural Insolvency Act should be enacted in provinces and better known.

Better utilisation of the Usurious Loans Act and an enactment similar to the Punjab Regulation of Accounts Act in other provinces are recommended.

Registration of Mahajans and Sowkars in every district should be optional, but inducement for registration should be given by certain concessions.

It is not possible to hope for the emergence of joint stock enterprise by the transformation of private bankers, unless the atmosphere for joint stock banking is considerably improved.

No measures are recommended for the small moneylender, who would adjust himself to the new situation, or profit from the improvement of general credit conditions in the districts.

Compulsory registration is recommended for the moneylender of the Pathan type.

The private banker is fighting a losing battle against new conditions, which he cannot withstand.

The classification of commercial banking, industrial banking, and banking for the financing of foreign trade, is faulty.

The banking future of India will depend largely on the emergence of local joint stock banks of the smaller size.

The use of Government funds has been a source of strength to certain Indian joint stock banks, but in British India help from such funds has been confined to the Imperial Bank alone.

The cash position of the Indian joint stock banks, stated as a whole, cannot be considered unsound.

Banking facilities in India must be considered inadequate in view of the fact, that there are 659 branches in India against 13,100 in the United Kingdom, one for every 440,000 persons in India as against one for every 3,500 persons in the United Kingdom.

The causes preventing the growth of banks in India are to be found in smaller use of cheques and less acquaintance with credit instruments generally, hoarding, and direct deposits by parties with firms, and companies. There is also the deterrent effect of failures, but foreign critics are prone to exaggerate the instability of Indian banking and the danger to depositors in Indian banks. Unfamiliarity with joint stock organisation is also an obstacle. The attitude of Government and public authorities has not always been sympathetic and helpful towards Indian banks. The growth of foreign institutions in the country has circumscribed the growth for Indian banks, and their competition has been growing. The limited amount of trade in Indian hands and the setback received by Indian traders of late, limits the clientele, which Indian banks can reach. Indian firms and persons do not always give preference to Indian institutions and sometimes they are precluded from doing so, when they would like to patronise Indian joint stock banks.

There is no dearth of capital in India for the next stage of advance, and if measures for the encouragement of joint stock bank-

ing were adopted, it will not be unreasonable to expect, that at least a dozen new banks on a large scale would come into existence.

The co-operation of local money and local publicmen could be secured, if smaller local banks are started with the guidance of the larger banks. Banking growth in other countries in the world came from the establishment of small local institutions and could be more readily secured on those lines in India, than merely by the encouragement of the larger joint stock banks.

The standard set by the Imperial Bank with regard to the costs of branch banking does not give a wholesome model for expansion of banking in India. There are places in India, where a branch of a joint stock bank is wanted, but there is no machinery at present for informing joint stock banks, or inducing them to open such branches.

The problem of liquidity would be assisted by the larger use of bills and the cash position of the banks, generally, would be materially assisted by the establishment of the Reserve Bank, which would help them with cash in case of need, not merely on Government securities, but on every form of recognised banking security.

The maxim, that banks taking short-term deposits, should not lend out at all, however sound the security may be, for more than six months or one year, is a counsel of perfection, the literal application of which would restrict banking service in India. Vigilance by an individual banker is necessary, but the banking system as a whole cannot recall all advances made to trade and industry in any country. It is the business of the banks to make their advances on sound lines and in a properly organised banking system, banks can expect to be helped by the Reserve Bank against any abnormal, sudden, or emergent demand for cash.

The need for excessive cash by individual banks adds to the cost of banking, which the community have to pay.

Indian joint stock banks enjoy in India no privilege of any kind. A definite policy should be enunciated by the state declaring it to be an important purpose and public object to encourage the growth of Indian joint stock banks. The precedent for such policy exists in the encouragement of the co-operative movement by the state and the application of such policy in the case of Indian joint stock banks is not less important.

Interference with joint stock banking and the imposition of additional regulations would not be justified without definite encouragement. The encouragement should take the form of same privileges, which the co-operative banks enjoy at present, same facilities for opening branches, as the Imperial Bank, rediscount facilities with the Reserve Bank and a special rediscount rate, whenever the Reserve Bank finds it convenient, facilities for advance against *pro notes* and suitable collateral from the Reserve Bank. There should further be encouragement to amalgamation of smaller banks by the exemption of super-tax for the first five years of the existence of the new company.

The field of interior banking outside the port limits should be reserved to Indian joint stock banks. Every Indian-born person and every company registered in India should be prohibited from placing any moneys on deposit, except with an Indian joint stock bank.

The outlook for Indian joint stock banks should be improved. Expansion could only come after existing banks are enabled to earn larger profits. The growth of Indian joint stock banking, after the concessions recommended are given, may come from the private bankers, individually or in combination, registering themselves, from the amalgamation and strengthening of small banks, 'nidhis' and loan offices. Expansion may also come by the opening of more branches by the existing banks through the use of interest-free funds.

The question of the co-operative central banks engaging in general banking business, however restricted it may be, deserves a close examination. The prohibition to co-operative institutions of dealing in hundis and general remittance is a retrograde step. Where the staff is suitable, in each province, in some districts, the central banks should be allowed and encouraged to engage as an experiment in ordinary banking business, within definite instructoins and limits.

The designation 'exchange banks' derived from 'eastern exchange banks' in the London money market, is misleading in India, because these banks do every other class of business. The proper classification would be foreign banks in contrast with Indian banks.

The menace to banking progress in India of the foreign banks, who have consolidated their position, cannot be realised without their historical position being examined.

The foreign banks started originally with moderate capital. Several of them disappeared from the field, after they initiated business in India.

Existing statistical information published about the 'exchange' banks is meagre and misleading.

The increase in the number of 'exchange' banks in recent years and in their operations in the interior, denotes the profitableness of the field of Indian banking for them.

In recent years greater links with foreign money centres have been established, two of the 'Big Five' in London having acquired interests in India. Non-British foreign interests have also consolidated their position.

The share of Indians in India's foreign trade is small and is estimated at 15 per cent. by the Indian Chamber of Commerce, Calcutta. This estimate is not modified in any way by the percentage figure put forward by the 'exchange' banks. Their object in lumping the figures for all banks and in expressing them in percentage, could not be in the interests of India.

The progress of foreign banking is parallel with the progress of foreign trade in foreign hands, and the two problems would have to be tackled economically at the same time, in order to retain in India both banking profits and trading profits.

The foreign trade of India is also the foreign trade of other countries, as imports of India become exports there, and exports there become imports to India. There is no justification, therefore, for the alleged obligation to finance it from Indian resources alone.

The legitimate financing of foreign trade is dealing in bills from the moment, when shipping documents emanate at an Indian port, in the case of exports, and up to the moment, when the goods on arrival here are cleared, in the case of imports.

Penetration inland to collect the produce of the country, or to dispose of imported goods, is the invasion of internal trade, and all banking in connection therewith is internal banking, in which the entry of foreign banks cannot but be harmful to India.

The credit cycle in India cannot be established, because of the wedge, which the foreigners have put in, both in trade and in banking.

The statements of their working in India supplied by the foreign banks, were unsatisfactory owing to lack of detail and the indeterminate character of the headings, and the fact that the figures were for a single date, probably specially prepared for the Banking Committee.

No conclusion could be drawn on the strength of such imperfect statistics as to, whether normally any funds are imported by the ' exchange ' banks from London, and whether cheap funds collected in India are not used abroad.

Since it was not known in what sense the word ' Indian ' was used in the statements supplied, no useful inference could be drawn, but, on their own showing, the prohibition of deposits by Indians in foreign banks would only deprive the non-British foreign banks of a negligible part of their working capital and the British foreign banks of something near five per cent.

Opposition by foreign banks to the proposals would, therefore, be the result of jealousy of Indian institutions, whom such a measure is expected to assist, and not any serious interference with their own business.

The cash held by foreign banks in this country against their liabilities has been so much reduced in recent years, as to raise the question, whether these banks do not constitute an element of weakness to the Indian money market.

The idea, that foreign banks in India are financing foreign trade only, is a fiction. The largest bulk of their operations is in the finance of internal trade.

Statements of the operations of the branches of foreign banks in the interior, which were asked for by me, were not supplied.

From the statement of the Chairman of the Mercantile Bank of India, it would appear that the more substantial profits of the foreign banks arose from local business.

' Exchange ' banks had a great share in shaping opinion on matters affecting trade and finance, both here and in London. The expression of such opinion was through British Chambers of Commerce, which were generally hostile to, and intolerant of, Indian efforts and Indian aspirations. Essential financial reforms were obstructed by them. They acted selfishly and took every advantage of the political and economic situation in this country and the embarrassment of Government, to secure their own ends.

The " exchange " banks had the hold on the minds of officials in India and in England, and Indian progress was at every stage blocked by them.

There is an open door in banking in India and any foreign institution could establish itself without let or hindrance, or without any legal obligations.

Foreign banks are foreign in character in their shareholding and in their directorate. There is no liability for audit of their accounts. Their activities and affairs in this country remain an absolutely closed book to the public and to the Government of the country. It is desirable that the Standing Finance Committee should call for particulars from the Board of Revenue in order to see whether adequate income-tax is paid by foreign banks.

Foreign banks hold a monopoly of foreign exchange business and a strong position in internal banking, which they propose to hold on to, by obstructing all reforms.

Complaints pointing to distinct hostility of foreign banks towards Indian persons, Indian companies and Indian institutions generally, have been heard in the past and were repeated before our Committee by responsible representatives of Indian commerce. In spite of denial of prejudice and of discrimination against Indian interests and disparagement of Indian effort, it was obvious that the complaints against them were well-founded.

A fervent appeal by Sir Purshotamdas Thakurdas for establishing a basis of goodwill before the Committee's work was over, was barren of results.

Lack of co-operation between Indian and foreign banks was noticeable. There was no feeling of comradeship between them and difficulties arose in the matter of call money and admission to the clearing house. In regard to the recognition of Indian insurance and shipping companies and in other directions, the foreign banks have shown themselves exclusive and intolerant.

By working in an Association, the foreign banks have chosen to act deliberately in an atmosphere of mystery, isolation and irresponsibility. Some of the rules of their Association are calculated

to keep out the business of Indian banks and Indian jobbers in exchange.

The Committee could not examine whether the obligatory charges levied under the other rules and payable by the clientele were excessive or reasonable.

The absence of any public authority charged with safeguarding public interests has precluded the examination of these rules as to whether they are legitimate, or whether they are in restraint of trade and against public interests.

It is necessary to determine whether India is not paying a double commission for moneychanging, both on exports and on imports, to the foreign institutions on account of the peculiar organization in India of trade and banking.

The rate payable on an import bill is an arbitrary rate of 6 per cent. *plus* a charge for remitting the money back to London, and on export bills, it is based on the prevailing bank rate in India.

The claim, therefore, that these banks bring cheap money from abroad and make it available to Indian trade is fictitious. Restrictive facility to Indians engaged in trade on the part of foreign banks, render their claim for doing efficient banking service to India hollow and untenable.

After many years' activities, the reluctance of parties abroad to give credit to Indians engaged in import and export trade, involves a serious reflection on the efficiency of foreign banks, who constitute the channel of information about Indian business houses.

Indian exporters' bills are not readily discounted, and margins are asked for. D/A facilities are not always available to Indian importers on the same basis, as they are available to foreigners.

With the exception of countries lying between here and China, India is the only country, which has both import and export bills expressed in a currency other than its own. Foreign banks cannot be exonerated from the responsibility for this situation.

Active steps will have to be taken for the introduction of rupee bills in the import trade of this country.

Service offered by foreign banks is not cheap.

The question of profits earned by the foreign banks in this country should be examined to see, how far they are legitimate and how far they are the result of non-competitive rates, or monopoly, or exclusive opportunity and privilege. The profits, from a glance at both reserve and dividend, of the foreign banks are considerable.

The low rate, at which foreign banks receive deposits, is not necessarily transferred to the clientele in lower charges.

The Committee have not been able to ascertain, whether the Controller of Currency is able to secure from foreign banks a competitive rate in the matter of Government remittance, and whether

foreign banks, through agreements or otherwise, do not make a profit on this.

European witnesses expressed themselves happy with existing conditions and deprecated any changes. Indian witnesses expressed themselves with a singular unanimity, that the present situation should be altered.

Public opinion in India has demanded in the past that the field of banking should be reserved for institutions registered in India.

The open door to foreign banks in India should cease and a system of licenses should be established. The issue of a license must be a matter of absolute discretion of the authority, on whom the duty is fixed, and its renewal must also be a matter of their judgment.

The power of licensing is a part of the sovereign power of the state and if the Reserve Bank Board are entrusted with this power, they would have to take into account, when necessary, " reasons of state," which may be divorced from banking and financial considerations.

It is essential, that the licensing of foreign banks should be instituted forthwith, and, pending the establishment of the Reserve Bank, the Standing Finance Committee of the Indian Legislature should exercise this power.

It is not desirable that a system of licensing should be instituted for Indian banks also. The object of licensing foreign banks is to protect different classes of Indian public and Indian institutions from unsound foreign banks, from malpractices, unfair competition, anti-social and anti-national activities, which they might indulge in.

The terms should be elastic to meet an emergent situation, or to ward off an apprehended danger.

The claim of foreign banks to equality with Indian banks would mean the negation of all regulation in their case.

The terms of the license are to be:—

(1) The licensed bank should not receive deposits in India from Indian-born persons or joint stock companies registered in India.

(2) The licensed bank shall confine its branches to the port areas only, and no branch shall be opened in the interior.

(3) Controlling interests, directly or indirectly, shall not be acquired in Indian institutions in order to defeat the above provision, or for any other motive.

(4) The existing branches in the interior should be withdrawn *pro rata* within five years, and the banks concerned should submit forthwith a programme indicating the manner and extent to which, they will be withdrawn during each of these five years.

(5) It shall not be open to the licensee to engage in this country, in trustee business, which would put Indian funds in its hands.

(6) Except the manager and one official in each branch under him, the whole staff shall be Indian.

(7) The licensed bank shall pay full income-tax on its earnings in this country and disclose all accounts and particulars to enable the revenue authorities to frame the demand.

(8) The assets of the licensed bank, in the event of liquidation, would be liable to be taken possession of by the official Receiver of High Courts in India, and the license is issued on the basis, that the licensee agrees that Indian creditors will have a full prior right in such assets.

(9) Copies of all statistical returns, reports, papers and balance sheets, prepared in connection with the business of the Indian branches and supplied to their head offices, would have to be lodged with the licensing authority in India.

(10) All information in the form, in which it is desired by the licensing authority, relating to business done in this country would have to be given by the bank. The licensing authority will have absolute discretion, as to which of this information should be published.

(11) The licensing authority will determine whether, and which, branches of the licensee bank will be admitted to the clearing house.

(12) The licensing authority will also determine whether, and which, branch of the licensee bank will be eligible for rediscount or any other facilities from the Reserve Bank.

(13) The licensee bank undertakes that its officials shall not participate in any anti-national movement in India, or assist such movement with funds, or in any other manner.

(14) That it shall not, in combination with other foreign banks or persons, make a ring or a pool, or a combination or working arrangement without the express permission of the licensing authority, who will see that such action on their part does not harm Indian interests.

(15) That it shall not combine with other banks, Indian or foreign, to make business rules, or impose charges payable by its Indian clients, which shall not have been approved of by the licensing authority.

(16) The licensed bank undertakes to conform to the laws of India in all disputes, which may arise between it and any Indian-born person or company registered in this country, and that neither the bank nor any of its officials will claim any special privilege in contravention of such laws.

The desire to get in apprentices in foreign banks, or to have advisory boards of Indians at their principal offices in India, is a manifestation of the spirit of servility, which seeks a subordinate association with the foreigner. These suggestions are not, therefore, recommended.

The terms should not be mechanical and they should be such as would secure healthy and ordered development of Indian banking. The imposition of restrictions for the sake of imposing them, without seeking to accomplish a definite economic object, cannot be justified.

The principle of reciprocity in the matter of the terms of the license would involve a variety of impositions on banks from different countries, but would let off the British banks very lightly, thus involving " Imperial Preference by the backdoor." It would cause unnecessary irritation, without achieving any object. It is the menace of British banks working in the interior, to the growth of Indian banking, which has to be checked by a system of licensing.

Licensing must have a definite aim of national policy and should not be a mere formality.

There is no reason to fear, that England would retaliate by shutting out the Chetties from Singapore, if proper terms were imposed on British banks working in this country.

If the position of foreign banks is left untouched, there is the danger of an extreme reaction, which might bring into existence a party advocating a " bag and baggage " policy. A moderate restriction now on that part of the activity of the foreign banks, which is immediately harmful to India, would, therefore, be in public interests.

The restrictions suggested are as follows:—

(1) It should not be open to foreign banks, or foreign persons, or syndicates to acquire controlling interest in any banking institution in India.

(2) No foreign bank should take deposits from any Indian-born persons or company registered in India.

(3) A bank not registered in India should not be eligible for rediscount and other facilities from the Reserve Bank.

(4) The offices of foreign banks should be confined to the municipal limits of the principal ports in India.

The broad principle underlying these provisions is that, only banks, which are registered under the Indian law, and which are controlled by a majority of Indian shareholders, should have full and unrestricted privileges in respect of banking in India. Such institutions alone are entitled to the use of that part of the savings of the people, which become bank deposits. Such institutions alone should be eligible for help from the central bank, which would be practically a limb of the state, and which would have under its control the most notable, extensive and concentrated accumulation

of funds belonging to the people in India, *viz.*, the banking reserve, the currency reserve and Government balances.

The reservation of the field of internal banking for Indian banks would affect only nineteen branches of four foreign banks, located in eleven places, four of which are not trading centres. No public inconvenience will be caused as the Imperial Bank, and in some cases more than one Indian joint stock bank, have their branches at these places. The evasion of this provision by the registration of Indian institutions controlled by foreign banks should be rendered impossible.

The peril to Indian banking from the acquisition of fullfledged Indian institutions by foreign interests, is illustrated by the case of the Allahabad Bank. Five years' period should be allowed for the controlling interest in the Allahabad Bank to be placed in Indian hands.

The proposed terms of license would enable foreign banks to operate at ports in their legitimate function of financing foreign trade without any let or hindrance.

Taking away Indian deposits from them might induce them to bring cheaper money from their country, which will enrich the Indian money market. It would be the test of England's boast regarding financial internationalism and the free use of the savings of English depositors abroad in institutions, which finance her own foreign trade as well as the foreign trade of India.

The effect of the terms of license, as proposed, would be to restrict slightly the field of profits for foreign banks and to expand it slightly for Indian banks. It will ward off the invasion of internal banking brought about by the increased number of foreign banks.

Savings are meagre in India and that portion of the savings, which become bank deposits, is limited.

On such savings of Indians, Indian institutions, Indian trade and Indian industry have an absolutely prior claim.

Every country in the world has devised regulation of the activities of foreign banks to suit its requirements. New countries, like the United States of America, whose banking organization was built on model lines later, keep a predominant share in banking in their own hands. Taking of deposits of American money by foreign banks is absolutely prohibited in such financial centres as New York. Canada, South Africa and Australia, in the Empire, have felt resentment at the dominance in their country of institutions controlled from London and have taken various steps against such domination.

The apprehension, that prohibition of Indian deposits in foreign banks would create a money trust in the hands of the Imperial Bank of India is not justified.

The suggestion, that foreign banks act as a medium for the export of Indian capital secured by them from cheap deposits in

India, has not been denied, but the justification offered, that there should be free mobility of capital cannot be upheld. In view of the acknowledged shortage of facilities to Indian trade and industries India must build up her national finance first, before indulging in international finance.

The export of capital at the hands of foreign banks and of trading and banking profits, through the use of the Indian money, enriches the economic like of countries other than India.

The right of the depositor to place his money anywhere he likes, cannot be pleaded against reasonable regulation by the state, since the entire foundation of law and taxation in every country involves the limitations of private ownership and of the rights arising from such ownership.

The suggestion, that prohibition of Indian deposits with foreign banks would render the position of the depositors unsafe, is mischievous and unsound. There is no ground for assuming that Indian depositors generally believe their money to be safer with foreign banks than with Indian banks. The lower rates charged by foreign banks do not offer, in themselves, the ground for such belief.

Indian depositors, shut out from placing their money with foreign banks, where they earn a very small interest, will have, besides Indian banks, many other suitable alternatives including new land mortgage bonds and industrial bonds with Government guarantee, recommended by the Committee.

Indian depositors, in placing their money with foreign banks, are not seeking safety, but courting danger by placing themselves under an alien economic system. No effective protection can be given to them against the risk, to which they are exposed. Their collective action is a source of peril to Indian banking and to Indian economic life.

The fear, that the shutting out of deposits will remove the support, which 'exchange' banks give to Government securities, is grossly exaggerated and need not be taken into account.

Powerful foreign interests have created difficulties in financial centres like London and Amsterdam compelling the central banks there to shut them out from rediscount facilities. The task of the Reserve Bank of India in controlling foreign institutions would be difficult, but it would be assisted by these measures.

Indian banking institutions are fully prepared and competent to expand under the leadership of the Imperial Bank of India for the needs all internal banking and for the financing of internal trade. This field should, therefore, be reserved for banks registered in this country.

If the increasing volume of operations of foreign banks in internal banking is not checked, the progress of Indian banks, including the Imperial Bank, would be impeded.

Moderate regulation on lines suggested would prevent the growth of racial bitterness. Breaking up the monopoly of foreign banks in the foreign exchange business is desirable, but it would be necessary to determine, whether this could be done by the method of competition and by setting up one or more special institutions controlled by Indians, and increasing the present atmosphere of disharmony, or, whether an honourable partnership could be established and Indian aspirations to control banks engaged in this line can be satisfied on the path of goodwill and harmony.

The expectation, that the Imperial Bank of India would take up foreign exchange business, when they cease to be Government bankers, is justified, but no proposals with regard to the future programme of the Imperial Bank came before the Committee.

No new institution could come into existence by private enterprise, on account of the very strong opposition of foreign banks, and even a Government institution would have to face tremendous odds.

Some British banks have a very large amount of their total business in India, and if they abandoned their present warlike mentality, they might be tempted to come under Indian registration in order to retain, not merely the business, which they are doing at present, but also to avail themselves of the privileges, which would be reserved for Indian banks. They might prefer to take deposits and rediscounts in India, but they will have to transfer to Indians enough shares to make the institution Indian, instead of foreign. The initiative for any such development must come from those, who hold the field at present.

The proposal to hedge round the advent of a State Exchange Bank by delaying it, till after the Reserve Bank was established and till after the Imperial Bank had an opportunity of attempting exchange business, puts the practical realisation of a national aim too far off.

The path of a State Exchange Bank with monopoly of Government remittance business will be beset with many difficulties. Even if it were successful, it could only take a fraction of the total business in foreign exchange, without seriously affecting the position of the foreign banks in the interior.

Unaccompanied by the reservation of interior banking for Indian banks and the prohibition of Indian deposits in foreign banks, this measure will not attain the object, but will engender even greater disharmony, than exists at present.

The need of a bank separate from the Reserve Bank, if the Reserve Bank and the new institution are both of state ownership, is not clear. The change-over from state to private enterprise would be difficult in the case of a separate institution, than if a department of the Reserve Bank were entrusted with the task.

The outlook should be, that ultimately the financing of foreign trade must be done not, from a state institution, but from Indian private enterprise.

A programme should be prepared of the nature and kind of assistance, which would be rendered to Indian banks willing to enter this field.

The provision enabling the Reserve Bank to act as agent of Indian banks in foreign countries, with a general improvement in the outlook of Indian banks by various measures recommended, will bring Indian banks on the scene before long.

Complaints have been heard against the Imperial Bank in its treatment of Indian banks and Indian constituents.

The predominant share capital of the Imperial Bank is foreign and its superior personnel is foreign. The position should be examined without any delay and by negotiation, or by law, it should be provided that the controlling interests shall be Indian. Till this is done, public opinion will not accept the *bonâ fides* of the Imperial Bank claiming to assist Indian agriculture, Indian trade and Indian industry in preference to foreign interests. It is not right that a concern controlled by foreign shareholders, should be Government bankers in India.

The cash position of the Imperial Bank of India has in recent times deteriorated. The cash position of the Imperial Bank has to be watched, because this is the cash, to which everybody in India looks up for relief.

General deposits in the Imperial Bank have shown no increase in the last ten years. There is a marked increase in the Bank's investments, and diminution in loans. There is also an increase in cash credits and diminution in bills, facts, which are of great economic significance.

The profits of the Imperial Bank have shown a falling off in recent years. It was not possible to say whether the recent increase in the number and activity of the foreign banks did not affect the Imperial Bank very much at more than one point in India.

The existing constitution of the Imperial Bank, from the Indian point of view, is unsatisfactory.

The superior personnel of the Imperial Bank is foreign and will remain foreign for long, because Indian recruitment has only started at the bottom, and, except in the Bombay circle for one year, European recruitment has gone on, ever since the Imperial Bank came into existence.

The method of encouraging banking through the establishment of branches by the Imperial Bank is the most costly. Which, and how many branches were not paying, was not disclosed in our enquiry. Provision for branch extension in future should be left to the Reserve Bank, and the benefit of such provision should be made available not only to the Imperial Bank, but to other Indian joint stock banks.

The complaints that the branches of the Imperial Bank compete with Indian joint stock banks, were not denied, but were justified through the benefit to the borrowing public.

Depletion of funds in the district and their transference from the district to the large centres of the money market by the Imperial Bank was commented upon.

The relations of the Imperial Bank with the foreign banks, as whose agents it acts in the interior, are cordial and no complaints of any kind have been made by the foreign banks against the Imperial Bank.

Cash deposits by the ' exchange ' banks in the Imperial Bank have shown considerable falling off in recent years, but no figures of overdraft facilities given by the Imperial Bank to the foreign banks were produced before us.

The existing arrangements for the issue of emergency currency are unsatisfactory. There is no reason why emergency currency should be issued on bills alone and only on those, which exist in the portfolio of the Imperial Bank. Government should take the power to issue emergency currency without restriction, either as to the rate, at which it is issued, or as to the amount.

As soon as the Reserve Bank is established, the Imperial Bank of India Act should be repealed and the Imperial Bank should be asked to register itself as an ordinary Indian joint stock bank.

As the contract with the Imperial Bank has expired, no special concessions are called for. Monopoly to the Imperial Bank of India acting as agents of the Reserve Bank, would not be in public interest.

No case is made out for a special act and constitution, special status and privileges and special contract to the Imperial Bank, after the Reserve Bank is established. It will be to public advantage, if the Imperial Bank took its rightful place at the head of Indian joint stock banks and derived the maximum benefit from the general measures recommended, which would improve the condition and outlook of all Indian banks.

The Reserve Bank would be able to carry out the dual obligations in respect of currency and credit control better and more economically, than they are carried out at present. The deficiency of the Imperial Bank as bankers' bank and regulator of credit, has strengthened the demand for this financial reform.

Frequent changes and high bank rates are avoidable, if the central institution could carry more cash and were also free to add to its cash by elastic provisions of the issue of emergency currency.

Rediscount facilities, which do not exist now, could be created by the Reserve Bank, through the increased use of bills and a bill market could be brought into existence.

There is room for serious apprehension, that there may be delays in the establishment of the Reserve Bank, on the ground that gold

and sterling reserves sufficient to secure its working in normal times should be first accumulated. If this is really the ground, a statement should be issued by Government indicating the specific amounts, which they consider adequate, and the difficulty of raising such amounts. There should be a special enquiry through a financial mission to New York as to, whether the amounts could not be raised there, if London is unwilling to give India the gold, for which India is willing to pay.

The balance of advantage is in the immediate establishment of the Reserve Bank with such funds, as are at the moment available. India cannot have a central bank better than she can afford, but it would be a considerable improvement over the present position and would clear the ground for necessary banking reform in other directions.

The issue of the Reserve Bank should not be mixed up with the reservation of financial powers in the hands of the Viceroy, as that might cause delay in its establishment.

The Chairman ruled out discussion of questions bearing on: (1) Whether the Reserve Bank should be a state bank, or a shareholders bank, and (2) What should be the constitution or its directorate. No recommendation is, therefore, made on these subjects.

The Reserve Bank will be the most powerful instrument affecting the economic life of this country, and to the outside world, everything, which the Reserve Bank of India will do, will be the index of the mind of India. It should, therefore, reflect in all respects the Indian nation, such as it is.

In other countries, central banks have grown in their long history, suited their requirements, and have exercised watchfulness, that foreign interests do not interfere directly or indirectly with the central financial institution.

The currency functions of the Reserve Bank could not be discussed on account of a decision from the Chairman to that effect.

In the Reserve Bank bill, as previously introduced, the unhealthy and injurious effect of the London City opinion on India's financial destiny, and the triumphant dominance of vested interests in banking in India could be discerned. Banking provision in the 1928 bill occupied a subordinate position.

Conditions affecting bank rate in India have been artificial. The bank rate affects millions of contracts and the value of all kinds of economic assets. In other countries great care is exercised to avoid frequent fluctuations or high levels. Bank rate in India at present means the rate, at which the Imperial Bank will lend against government securities. In other countries it means the rate at which the central bank will buy bills.

A provision should be made to enable the Reserve Bank at its discretion to discount paper of member banks at a rate lower than

the published rate. In advanced money markets, the discount rate on bills is very much lower than the bank rate, and the market has normally enough funds to make resort to the central bank unnecessary. In India bills are scarce and banks are not used to rediscount. In order to increase the vogue of bills and to induce banks to use rediscount facilities freely, discretion should be vested in the Reserve Bank to make a special rediscount rate for banks, different from that, which it charges to the public.

The emphasis put by the Hilton-Young Commission, that the central bank should not do ordinary banking and should at no point compete with any banking institution in the country, was a counsel of perfection and was the basis, on which foreign vested interests in banking in India were able to secure in the 1928 bill unusual provisions, restricting by law the power of the Reserve Bank of India to borrow, to buy bills, or sell remittance to the public, to open branches in the interior, to limit its holding of agricultural and other internal bills.

The Reserve Bank will need to work with great caution and conservatism in the initial years, but restrictive provisions of this kind on the statute book are not desirable.

Though unusual in most countries, the provision of compulsory deposit of cash by banks taking deposits in India is recommended.

If the privilege of taking deposits from Indians is not taken away from foreign banks, they would also be brought under the scheme of compulsory deposits, but the extension of any benefits to them of rediscount or otherwise, would be a negation of policy. The central currency and banking authority of India should not be at the mercy of foreign institutions, who should be shut out both from deposits and rediscounts in India. The practice in the United Kingdom and in Holland offers wholesome precedents of central banks confining rediscounts either to banks registered under the national law, or to bills that bear the signatures of their own nationals.

The Reserve Bank should be free in the matter of foreign bills and remittances to sell and to buy, to whoever it likes, and should be free to enter the open market at any stage and not merely at the gold points.

Statutory power should be given to the Reserve Bank to enable it to act as agent outside India for any Indian joint stock bank, for collecting money abroad on behalf of such joint stock banks, or for accepting bills on behalf of such bank. In practice, the Reserve Bank should not do this work, except on the deposit of adequate security in India and after the elimination of every element of risk to itself.

Discretion should be given to the Reserve Bank in law with regard to the period of maturity of agricultural and other bills, which it will purchase, as well as in regard to their amount.

Private bankers not engaged in trade, whose own capital is not less than Rs. 2 lakhs, should be eligible for membership of the Reserve Bank and should be exempted from the provision of the compulsory deposit of cash. They should get the benefit of the Bankers Book Evidence Act, cheap remittance and other facilities given by the Reserve Bank for member banks. This measure is calculated to stay the recent disintegration of the Indian banking system, which is finding it difficult to meet the assaults of the foreign system. It is hoped, that this measure will also lead to the establishment of acceptance houses and discount houses.

The balances from post office savings bank and the sale of postal cash certificates should be transferred to the Reserve Bank and should be made available, through it, for trade and industry.

The issue of gold cash certificates recommended by the Hilton-Young Commission should be made as soon as the Reserve Bank is established. In order to strengthen the gold position of the Reserve Bank and to increase the visible supply of gold in its hand at any particular moment, it is recommended that the Reserve Bank should have a monopoly of importing gold bullion in India for non-currency purposes. In order to have this done with as little interference as possible with the bullion trade of the country, the Finance Department should invite a conference of important bullion interests to fix up details.

The withdrawal by the Imperial Bank of free remittance facilities to its customers from one account to another, has been a retrograde step. The Reserve Bank should undertake in practice the obligation in the case of member banks and bankers, who have accounts with it, to transfer funds from one branch of the Reserve Bank to another free of charge. Similar obligation should be imposed on the agents of the Reserve Bank, whoever they are.

If inducements are considered necessary for the Imperial Bank to enter a field, which is not unprofitable, the outlook for Indian banking may be regarded as very poor indeed.

The Reserve Bank authorities should be left free to fix suitable agency arrangements on suitable terms, but arrangements extending to twenty-five years would be opposed to considerations of business as well as of public policy.

The Reserve Bank should have a branch in each province, in order that free remittance and other benefits should be brought to the interior, and it could have first-hand information in regard to parties, etc. This would be also necessary in order to enable the Reserve Bank to discharge its function as central banking authority.

Apart from the statutory division of issue and banking departments, inside the banking department itself several sections would have to be created. One will deal with the co-operative movement,

one with the land mortgage debentures, one with the business of foreign exchange, apart from the maintenance of exchange, one with the administration of the savings bank funds, and one with the distribution to the market of gold bullion imported.

In view of the important happenings, both in India and abroad since 1927, the Reserve Bank bill should be redrafted, before it is considered by the legislature.

The attitude of Government to nascent enterprise has a very direct influence on the growth of industry. The state represents the final and superlative power in the community. In the past, Indian state policy was dominated by ideas of free trade, which also coincided with the comfortable notion of India, producing the raw materials and affording a standing and permanent market for the manufactures of the United Kingdom.

The absence of an industrial policy is much more noticeable in India than its presence. Indian opinion holds, that the reason for this is the overwhelming influence, which foreign vested interests enjoy with those, who govern and direct the policy. It is necessary to counteract the mischievous effect of explanations usually given for the fact, that India is backward in industry, and the share of Indians in such industry as exists in the country is small. Attempt to ascribe to Indians in business matters a different psychology is, generally made to divert attention from, and to conceal, the privileged position of the foreigner.

The " dearth of capital " is a relative term, true of every country, but the problem in India is more of foreign control of Indian capital.

Formulation of a definite industrial policy is called for, because, the prosperity of the community, which includes scope for employment, is bound up with successful enterprise in the country, and in the failure of such enterprise, not only the parties directly concerned, but the community, lose something. Growth of industry would lead to the growth of capital by the retention of profits and wages in India. Concerted action of all sections of the community is wanted for the success of an industrial policy. A free field and minimum interference by Government has involved the large concentration of resources in foreign hands and the consequent placing of a mortgage on the wealth of this country. Indian witnesses not only believed in the inadequacy of facilities to India, but felt that larger facilities were available to foreigners for the same class of security than to Indians.

Banks, working in their own interests, prefer financing trade. Banking funds are severely limited. Industry, particularly that controlled by Indians, suffers financial shortage.

Existing banks have claimed, that they are financing industry, but they cannot be said to have fully realised their responsibility to it. An undue emphasis on due dates and repayment with regard to loans to industrial concerns can intensify a downward situation,

against which industry may be fighting. Banks could not prosper, where the industry of the people is in a weak condition.

The two signatures rule, in addition to concrete security, which is obligatory in the case of the Imperial Bank, and a normal practice in the case of other banks, amounts to the demand on the part of banks for a guarantor before industry can have any money, however sound and flourishing it may be. There is shortage, not of capital, but of credit.

The rate and volume of Government borrowing in recent years have affected direct deposits by the public in industrial concerns. If banks had made considerable progress, one would have promptly said that the method of direct deposits was a primitive method, unsuited to the requirements of modern industry, and that it should be discouraged, but until such a moment was reached, it would seem to be a blessing.

Managing agents have found finance for industrial concerns, but, as a rule, without risk or loss. The managing agency system absorbs too large a share of profits and interferes with the flow of capital into industry, by making it less attractive to the investor. The system of transfer of control of industry by heredity, or by sale, to parties not approved of by the company, is one, which must be put an end to by law, and a provision to that effect should be inserted in the Indian Companies Act, the revision of which is in sight. A provision, which prevents the contract for management being limited to a certain number of years and being good during that period only, if a specified individual is able to offer his personal services, will not prove hard, where there are capable partners in the managing agency firm.

All over the world, the banking system as a whole lends to industry as a whole, on the basis that loans are for short-period, but this is a fiction. Industry carries no cash, but stocks. Loans could be only repaid by a company from a new loan elsewhere. The banking system of the country must adjust itself to the requirements of industry and not *vice versâ*. The suggestion, which was made by the foreign " experts ", that it is improper for banks to give finance to industrial concerns either for capital shortage in the block, or for extensions, or even for normal working capital, is opposed to the industrial history not merely of this country, but of other countries.

The idea, that not merely capital requirements, but normal working capital could be secured by debentures, instead of by bank loans, has only been partially realised even in advanced industrial countries and cannot be realised in India for a very long time to come. The debenture affects the credit of a concern with banks and with suppliers of material, as well as selling agents, and is regarded in India as a sign of financial weakness rather than of strength. Debenture finance is not feasible and would be more costly than bank loans.

The amount of debenture issue on the basis suggested would be larger, even for existing industries than could be possibly absorbed

by the market. Everything should be done to make the issue of debentures popular. To meet the financial requirements of industry, to the extent to which they are unsatisfied now, is beset with more than one difficulty. It cannot be accepted as the sole measure for securing to industry, all that it would require in the way of finance. As an immediate panacea, it holds out no hope. The need for special institutions, which would know the requirements of industry, assess the value of the security offered, and give advances for long-term, is established.

European witnesses were opposed to an Industrial Bank, sceptic about its need, doubtful about its success, and frankly hostile to the notion of state aid to such an institution. An Industrial Bank is wanted to make available to industry larger volume of finance than industry can get at present, and on better terms both as to the period of the loan and the rate of interest. It would do for industry what ordinary bank does for commerce.

The prospects of such an institution coming into existence by private enterprise, without any assistance from state, are small. Assistance by Government to the Industrial Bank, which will enable it to come into existence and have the necessary funds for its operations, does not necessarily involve assistance by the latter to industrial concerns, except on purely business considerations. It is because industry is willing to pay the price for finance, and yet is unable to get it, that something substantial has to be done.

Apart from loans on sound lines, industry would require other assistance. This would have to be given by Government through a special machinery created for this purpose. Enterprise and capital might be available, but information is lacking. The primary aim of Government should be to bring relevant information together and to make it available to the business community.

There should be a census of production on lines laid down centrally, and it must be uniform for all India. A small board consisting of one economist, one businessman and one technologist with the Director of Industries acting as secretary and member, wherever such an official exists, would have to be set up in the provinces. A similar all-India board would have to sit and would have to work in close collaboration with provincial boards. The formulation of an industrial policy by the state and its declaration should take place centrally.

The establishment of an Industrial Bank should not be delayed on the ground of the depression of trade. The Industrial Bank should have branches for the present at Bombay, Calcutta, Madras, Lahore and Cawnpore. Such funds and energy as India can spare, should not be used for independent provincial organizations. Excessive emphasis on the autonomy of the provinces in the matter of industry is calculated to create separate interests and centrifugal tendencies.

The bonds of the Industrial Bank should have the guarantee of Government and should be included in the list of Trustee securi-

ties. The guarantee of the central Government would enable larger funds to be raised at a lower rate, both in India and abroad, and a fair distribution of these resources amongst the provinces, some of which may not be able to raise large funds.

Legislation relating to commerce and industry is, and will, remain, central. Assistance to industry in the matter of customs tariff, railway rates and stores purchase could be better secured by an all-India institution. The co-ordination with the administrative machinery of the provinces would, of course, be necessary. Administrative conveniences should not be allowed to create artificial divisions in the economic life and organization of the country. There will be convenience and economy in a central institution with regard to technical advisers, training of staff, pooling of experience and information, both inside the country and from abroad. Duplication and waste of effort would be avoided.

The capital of the Industrial Bank should be Rs. 5 crores, and for some years Government should hold not less than 51 per cent. of it. There should be no statutory limit to the amount of bonds, which may be issued, but the board of the Industrial Bank should act in close co-operation with the board of the Reserve Bank to regulate the borrowing operation.

There should be no prohibition with regard to the taking of deposits by the Industrial Bank at its various branches, but the rates for such deposit should not be in effective competition with rates offered by Indian joint stock banks.

The Industrial Bank would be an experiment on a large scale and in a direction, which will effect national wellbeing. Government should, therefore, try, in consultation with Provincial Governments, to secure the co-operation of the best minds of the country.

The managing governors at the centre and the managers of the provincial branches must be men, who, with their other qualifications, would share the national outlook.

The Industrial Bank would help their clientele in various ways indicated. It would be essential for the Act constituting the bank to give it wide powers, and the delegation of such powers to provincial managers and provincial boards should be left with the central board.

The savings per head in India are small and the addition to the country's wealth every year, after repairing the wastage of capital stock, is small.

Capital savings are the result of a keen realisation of the future accompanied by a feeling, that what is saved now would be reasonably safe and would be available to the party in suitable form, when he needs it in future.

India's national production, though very considerable in the total, is very low per head. Her consumption, in spite of the low standard of life, eats up much of what is produced.

The first claim on a man's savings in India is for ornaments on the person of the wife. India is paying a heavy price for this archaic system of carrying her savings.

A part of the savings of the community at any particular moment becomes bank deposits. The encouragement of savings should be an important objective of state policy. Public opinion should be created on this subject. The absence of machinery of saving is responsible for small total savings.

The postal savings bank has made considerable progress, since it was started. The number of accounts and the amount to the credit of each individual are smaller in India than in most other countries. The post office savings bank should become to the poor man what ordinary banks are to better classes.

Additional facilities suggested should be created. Departmental and official objections should not be allowed to stand in the way of improvement in the thrift machinery of the country, and a departmental enquiry should be promptly set up with a view to effect the reforms suggested.

The use of the term " savings bank " by foreign banks, should be prohibited forthwith, as well as by all Indian banks, who have not hitherto taken " savings bank " deposits. With regard to Indian banks, including the Imperial, a period of five years should be allowed to enable them to adjust matters, after which the use of the word " savings bank " by them should be interdicted.

Facilities for insurance, which Government make available from the post office to Government employees, should be thrown open to the public, provided the rates offered by Government are not such as to compete unfairly with private enterprise. It should be provided, that moneys received by foreign insurance companies in India by way of premium, should not be moved outside this country. If foreign insurance companies must operate in India and take away profits, it is at least essential that the use of the Indian funds should go to swell the resources of the Indian money market.

A law on the model of the Industrial and Provident Societies Act in the United Kingdom should be passed, having regard to Indian conditions, and such a law should be used not merely to regularise the position of Nidhis and Chit funds in Madras, but of various schemes in operation on a small scale in different parts of the country, in which the small man makes a regular periodical contribution in the expectation of getting his money back with interest, or the equivalent advantage at a later date.

From the point of view of the community, much greater interest would attach to the application of the system of hire purchase, or instalment purchase, if it is used in connection with instruments of production, instead of objects of consumption.

Apart from permitting the withdrawals from the post office savings bank by cheques, Government should pay by cheques the salaries of all employees above one hundred rupees, at least at

places where facilities for cashing the cheque are available. It should be made lawful for payment of land revenue and all other dues to Government from members of the public to be made by means of the cheques.

Gold cash certificates should be issued, and leaders of social opinion should urge its use in place of ornaments for dowries.

The gap in the investment market between government securities and speculative shares has to be filled by the creation of intermediate instruments, and would be filled by the land-mortgage debentures and industrial bonds. Debentures of industrial concerns issued under the guidance of the Industrial Bank would come next.

The establishment of investment trusts in India is possible and desirable. An immeasurable benefit to India is bound to come from the establishment and proper working of investment trusts and the assistance, which they will give to the investor in the creation of intermediate securities, which do not exist now, in providing a channel for investment in industrial and other fields, where the primary investor would be too scared or too ignorant. The investment trust would also assist in carry-over for industrial and other concerns particularly on issue of additional capital in the form of preference shares or debentures where banks cannot, and do not, venture now. In one way or another, the operations of the investment trust will enrich the Indian money market and will fill up the gap, which is all too noticeable in its present organization. On the other hand, an investment trust, if properly organised, might be in a position to attract considerable capital from abroad.

The process of Government borrowing and spending has hitherto been entirely independent of any considerations of its effects on private enterprise. The volume and the rate of Government borrowing affect the rate, at which trade and industry can get accommodation. The correlation of the capital needs of the Government and the capital needs of private enterprise is necessary.

The land-mortgage debentures and industrial bonds suggested in this report are necessary to strengthen the economic life of the country, to reduce the burden of the enterprising classes both in agriculture and industry, and to increase their motive for larger production. A small committee should be appointed by the legislature to make a detailed examination of the capital requirements of Government, including the new directions, and of fixing a reasonable allocation of the total funds raised by the credit of the state.

The object of all regulation is to enable the relative rights of parties to be clearly determined and to make provisions, which would prevent any individuals, in search of their own interests, to interfere with the rights of other individuals, or the common rights of the community.

Regulation pertaining to foreign banks operating in this country should be as follows:—

(1) No bank, which is not registered in India, and whose capital is not expressed in rupees, should be allowed to

establish branches outside the municipal limits of ports.

(2) No banking institution registered in India should be allowed to be controlled by a foreign person or company.

(3) There shall be a separate register of shares at the registered office of a banking company, showing Indian holders and non-Indian holders separately. That it shall be obligatory on the directors of the company to refuse all transfers from the Indian register to the European register, but not *vice versâ*.

(4) That it shall not be lawful for any Indian-born person or naturalised Indian, or for a company registered in India, to place his, or their, money on deposit in a bank, that is not registered under the Indian Banking Act.

(5) That every bank, which is not registered in this country, and which seeks a license to work in this country may, on application, be given a license at the absolute discretion of the Minister of Finance. This license would be renewable every two years and the Minister shall have absolute power to refuse renewal, when, in his opinion, in the interests of the country, such renewal would be justified.

(6) Prior to the license being granted, and on the application for the license being made, the Finance Minister, or his authorised representative, shall take an undertaking, which shall be duly confirmed by the board of supreme authority of the applicant bank, to the effect that, in the event of stoppage of payment, or of the failure of the bank, the local assets shall not rank *pari passu* with other assets, but shall be retained for the discharge of such obligations in this country, as may have been incurred by the bank.

It is because foreign hold on banking would perpetuate foreign hold on the economic life of this country, that regulation in these directions is asked for. Discrimination is unavoidable in practice. In the minds of Indians it exists, because discrimination in the past has been against them. India is more likely to gain the confidence and respect of the world by intelligent economic reorganization, than by keeping the door open for exploitation. There need be no fear, that India would lose international goodwill and her credit abroad by intelligent regulation.

Early steps should be taken to bring under one Act provisions not only of the Companies Act applicable to banks, but other provisions scattered in case law or in other Acts as well as the recommendations made in this report. Opinion from commercial bodies, the stock exchange and the shareholders association, should be invited, and when the material is ready, a representative conference should be called.

The institution of a license for Indian joint stock banks is not recommended.

The minimum capital for an Indian joint stock bank should be Rs. 50,000, but the Reserve Bank board should have the authority to make an exception. The authorised capital should not be more than twice the subscribed capital, and the paid-up capital should not be less than half the subscribed capital. Existing institutions should be assisted by exemption from stamp and other duties, to enable them to conform to this requirement within some time after the Bank Act was passed.

The majority of the shareholders in an Indian bank should be natural-born Indians and this majority should not be less than 60 per cent. The majority of directors in an Indian bank should be natural-born Indians.

It should not be open to the directors or to the company to mortgage the uncalled capital, which must remain as a security for the satisfaction of creditors.

The power of directors of joint stock companies to refuse a transfer of shares and their registration in any particular name, cannot be modified in the case of banks, unless the general principle in its application to joint stock enterprise is sifted and examined.

The Finance Department should have a consultation with the stock exchange authorities in order to reconcile the convenience of all sections concerned and to meet the legitimate objections of the stock exchange against blank transfers being made illegal, by a specific reduction of stamp duty.

It should not be open to banks registered under the Indian Bank Act to declare a dividend exceeding 6 per cent. unless and until their reserve fund equals half the capital, and to declare a dividend beyond 9 per cent. until the reserve fund equals the whole of the capital.

Granting of loans to directors of banks and auditors, or to any firms in which they are partners, should be prohibited.

It should not be permissible in law for a bank to make any advances against its own shares.

Shareholders will have the right not only to appoint auditors, but to fix the remuneration given to them. It should not be legal for the management to give to the auditors of the bank any extra remuneration, which is not approved of, or confirmed, by the shareholders.

A provision should be made for accounts of branches to be audited by a qualified auditor, but such qualified auditor may be one practising in the muffasil, and different from the principal auditor of the bank.

The form of balance sheet provided in the Indian Companies Act is unsuitable to the special requirements of the banks. A new form is desirable and has been prepared. For the purposes of exposing in a conspicuous place at the registered office and every

branch of a bank, no separate statement should be required. The balance sheet should serve the purpose.

It is essential that the central banking authority should have direct information of changes in the controlling interests of banking institutions, and the obligation should be laid on the board of directors to inform them of any such changes.

Amalgamations between banking institutions in India should not take place without the permission of the central banking authority.

Power should be vested in the central banking authority, by which, in the case of a bank getting in difficulties, disaster may be avoided, if it is avoidable.

Provision should be made that the liquidator, in the case of banks, shall be appointed by the Reserve Bank, who would also have the obligation of giving such relief immediately to depositors as may be possible, but this latter should be a matter of discretion of the directors.

Tendencies of human nature cannot be corrected except by deterrent punishments, where frauds are detected. The obligation in the interests of the community to secure deterrent punishment to delinquents is not at present being fully discharged.

Publicity attached to criminal complaint by shareholders of banks, might be considerably reduced, if the obligation is laid on the law officer of Government to examine the subject matter of the complaint and to allow the prosecution, only if he is satisfied. Proceedings before a magistrate should be ' in camera ', and should be allowed to be published at that stage, whether he is satisfied that facts, which will go out to the public, will not be the facts on one side only, but as stated by both sides.

Consequential changes in law and procedure as well as the working of every class of courts arising out of these recommendations will have to be made in many directions. All legal points arising out of the Banking Report should be summarised for examination by the Legal Departments of Provincial Governments and the Government of India.

Artisans with technical skill, being thrown out of their hereditary occupation in many parts of India, swell the number of common labourers to the great detriment of the economic interests of India. It is cheaper to devise measures for preserving handicrafts and small industries than for bringing into existence new ones. Strengthening the credit machinery in the districts, generally, would react favourably on the artisan. No recommendations by Provincial Committees should be rejected without a close examination.

Mortgage credit would be assisted in urban and rural districts by improvement in the nature of the security, procedure of borrowing, the reduction in costs, and avoidance of delays in recoveries. The system of equitable mortgages should be extended to more

places, and Provincial Governments should be given the power to declare the places, where it will be applicable.

It is desirable to encourage trade bills and to discourage cash credit. The ideal is to abolish stamp duty on internal bills of exchange, but it should be at once considerably reduced. If the finances of Government do not permit this, an *ad hoc* tax may be levied on cash credits.

Existing duties on transfer of shares and on debentures should be reduced.

In order to attain the ideal of free remittance in India, Government should set an example by reducing money order charges at the bottom, and the Reserve Bank should give facilities for free transfer from one branch to the other. It should be arranged that the agent of the Reserve Bank in the mofussil should also give this facility. The proposal for the grant of facilities for transfer free of charge in postal savings banks accounts from one account to another and from one place to another, should be carefully examined.

It is desirable to encourage the use of vernaculars in regard to hundis, cheques and passbooks.

Clearing houses should be organized, not merely at the ports, but in the interior. The control should vest in the Reserve Bank and foreign banks should either be excluded, or, if they are admitted, it should be on the understanding that such admission could be withdrawn at any time.

An all-India act should be passed on the lines of the Industrial and Provident Societies Act, which would be applicable not merely to ' nidhis ' in Madras, but to all varieties of institutions, where contributions are taken from small men periodically.

The system of banking built up by Chetties deserves great commendation and facilities should be given to them by the central institution.

A special officer should be appointed for watching the loan offices in Bengal and arrangements should be made to secure funds to such loan offices, against suitable securities from the Imperial Bank of India, till the Reserve Bank is started, and thereafter from the Reserve Bank.

It should be obligatory, that all goods placed in licensed warehouses should be insured with Indian insurance companies.

A common association of all banks and bankers should be formed in this country, but such an association should not have the power of regulation and could not replace the central banking authority, proposals for which are contained in the Provincial Committee's reports.

It is desirable to discourage Indians from seeking certificates of foreign associations in examinations held in this country, and corresponding facilities should be created in this country. It is not desirable to spend Government funds on scholarships abroad for the

study of banking. Commercial education is progressing at many universities and it would be better for boys to take advantage of this curriculum in preference to the arts course. Good bankers would be created by suitable models at the top and by " espirit-de-corps " at the bottom amongst the staff, and not from academic institutions.

MANU SUBEDAR.

ANNEXURE I.

SOME PAPERS RELATING TO MY FAILURE TO GET ADEQUATE INFORMATION REGARDING FOREIGN BANKS.

Letter dated the 17th October 1930, from Mr. Manu Subedar, to the Secretary, Indian Central Banking Enquiry Committee.

I have urged the necessity for receiving prompt information with regard to the deposits and advances of the Exchange Banks and other foreign banks working in this country. I was told once that this information was being collected in India, and subsequently the Chairman said that he had written to the India Office to get this information. As I am not very clear as to what is being done with regard to—

(*a*) British Banks, and

(*b*) Non-British Banks,

in the matter of collecting the necessary and detailed information, I should be much obliged if you will let me know the position.

You will realise that with regard to the sub-Committee, which has been appointed, for a draft of the statement on the financing of foreign trade, its work cannot proceed very far without these relevant facts. As it is many months ago since the request for these facts was made, it is possible that the replies have been already received by you, but have not been circulated. If that is so, please let me have an early intimation.

I should also like to know what arrangements have been made for the examination of Sir Osborne Smith, which was going to take place sometime before the end of October.

Letter dated the 20th October 1930, from the Secretary, Indian Central Banking Enquiry Committee, to Mr. Manu Subedar.

With reference to your letter dated the 17th October 1930, I beg to state that the sub-Committee on the Financing of Foreign Trade desired me to obtain from the Chairman of the Exchange Banks' Association, Calcutta, accurate information as to the extent to which the Exchange Banks take a part in the financing of local industries, internal trade and agriculture. This was done in my letter of the 10th September 1929 and I was informed that these details were not available here and as they were of a strictly confidential nature, it was suggested that I should ask the Director-General of Commercial Intelligence and Statistics to endeavour to prepare them in a consolidated form through the same channel as he obtains the figures relating to Capital, Reserves, Deposits and Cash recorded on page (1) of the Statistical Tables relating to Banks in India published by his department. I accordingly wrote to him and I understand that he is in correspondence with the India Office in this matter. I sent him a telegram recently to enquire whether he had received the information and I was told that it had not yet been received.

As a result of the discussions in Committee, a further letter has been sent on the 12th September 1930 to the India Office asking for the information in the enclosure in regard to the operations of British Exchange Banks in India. The India Office has been requested to obtain the information by requesting each of the Exchange Bank's offices in London to favour them with the information confidentially, and to consolidate these figures and supply the Committee with a statement for all the banks together.

The Chairman understands that it will be very difficult for the India Office to get similar information for the non-British Exchange Banks who have not got their offices in London. The Chairman will, however, discuss this matter with the India Office on arrival in London.

The question of the examination of Sir Osborne Smith will be considered after the Chairman returns from London.

INFORMATION REQUIRED FROM BRITISH EXCHANGE BANKS WORKING IN INDIA.

Deposits in India.

31st December 1929.	Current accounts and money payable at call			Fixed and short deposits.		
	Non-Indian	Indian.	Total.	Non-Indian.	Indian.	Total.
	Rs.	Rs.	Rs	Rs.	Rs	Rs.

Advances in India.

Loans, Cash Credits, Overdrafts and Local Bills discounted.

(BILLS of Exchange to be excluded.)

31st December 1929.	Non Indian.	Indian	Total.
	Rs.	Rs.	Rs.

(This form was enclosure to Secretary's letter dated 20th October 1930.)

Letter dated the 23rd October 1930, from Mr. Manu Subedar, to the Secretary, Indian Central Banking Enquiry Committee.

I beg to acknowledge your lettter dated 20th October 1930. In view of the fact that the Chamberlain Commission also experienced difficulty in getting information about the operations of the Exchange Banks, I regret to learn that after twelve months' efforts from the 10th of September 1929, the few particulars, which the Committee desires, are not being made available by institutions, who have disclosed the strongest objection to any interference with their working in this country.

2. I cannot understand that the figures are not available in India and that the respective banks are regarding their figures as confidential even against the Government of the country.

3. I shall be obliged if you will ask the Chairman whether he expects the necessary information before the Committee makes a report.

4. With regard to the form in which the information is asked for from the India Office in your letter dated 12th September 1930, I have to suggest that the closing date of the year is not a very satisfactory date, particularly in the matter of advances when it is well known a certain amount of window-dressing takes place. Will you please write in, giving them also the 31st of March, 30th of June and 30th of September 1929 as the dates for which the information is wanted?

5. The information would further be incomplete with regard to the heading put down as " advances in India ". Should there be deposits from outside India and advances to parties outside India, the information must be made available to us to enable us to judge the position. I trust you will be, therefore, able to get these items included. I shall be obliged if you will let me know what is being done in the above matters.

6. With regard to the non-British Banks, who are members of the Association in India and to all intents and purposes enjoying similar privileges and the protection of the Indian law, I cannot possibly understand the inability

of the Government of the country to get the necessary figures from them. If the Finance Department of the Government of India is not helping the Committee in this matter, or, if there are any other difficulties, it would be just as well to state them clearly, but I do not feel at all happy at the statement of the India Office to the Chairman that it will be very difficult to get similar information from non-British Exchange Banks. I would be much obliged if you will request the Chairman to let me see the correspondence in connection with this and to let me know where the difficulty arises; whether the India Office has definitely asked the non-British Exchange Banks for the information and these institutions have refused, or, whether the India Office have not yet asked them for the information and are merely apprehensive that such information may not be made available to them.

7. Will you please request the Chairman to let the sub-Committee appointed to draft a statement on the Financing of Foreign Trade know the result of his conference with the India Office on this subject?

Letter No. 2892, dated the 3rd November 1930, from the Secretary, Indian Central Banking Enquiry Committee, to Mr. Manu Subedar.

Will you kindly refer to your letter dated the 23rd October 1930, which I discussed with you in Bombay under instructions from the Vice-Chairman? I have now asked the Finance Department to obtain confidentially figures from the non-British banks similar to those already called for from the British banks and to supply us in a consolidated form the figures for all the non-British banks in India.

2. In view of the fact that the Exchange banks do not publish any statement in regard to their Indian business separately, the Vice-Chairman does not apprehend that there is any window-dressing which would vitiate the figures which we have called for as on the 31st December 1929.

3. The headings "Deposits in India" and "Advances in India" will include deposits and advances brought to account in the Indian books of the Exchange banks irrespective of whether the depositors or borrowers are resident in or outside India.

4. As steps are being taken to obtain the figures in regard to non-British banks in India itself, the Chairman is being informed that he need not discuss the matter with the India Office as originally suggested in my letter of the 20th October 1930.

5. It is expected that the information required from the banks will be received before the Committee makes a report.

Letter dated the 5th November 1930, from Mr. Manu Subedar, to the Secretary, Indian Central Banking Enquiry Committee.

I acknowledge your letter dated 3rd November. What I do not still understand is why the figures should come to us in a consolidated form either with regard to the British Banks, or with regard to the non-British Foreign Banks. Every Indian Bank, including the Imperial, give these particulars in a certain form and the Banking Committee know their exact position from their balance sheet. Personally I am not at all convinced that, as from a public commission of this kind, these foreign institutions should want to keep these figures as secret. I was told that the presence of Mr. Buckley on the Committee makes it difficult for them to disclose their affairs to a rival, but a statement of deposit figures and the figures of advances, including also their analysis as between Indian and non-Indian, is not a disclosure of the affairs of any kind from the point of view of business competition, and I would again urge on you to get into communication both with the Chairman and with the Vice-Chairman and to get these figures for each individual institution.

With regard to paragraph 2 of your letter, I beg to differ from the Vice-Chairman with regard to window-dressing. It would be impossible to judge the question of window-dressing, until one knows the dates when they close their accounts, and should the 31st of December coincide with either the end of the year or with any quarterly statement, which they prepare for any purpose, there may be some window-dressing. In any case particulars for one day do not allow the position to be gauged correctly, and I think it is desirable to secure the figures for a series of years to indicate whether the deposits and advances are on the wane or on the increase. Considering the importance of the enquiry and the many conclusions, which would necessarily arise out of these figures, I am sure neither the Chairman nor the Vice-Chairman would choke off a request for information and that everything will be done to secure these figures for more than one date.

I am not at all clear as to what you intend to write in paragraph 3. If information is not available as to what percentage of their total deposits in India are monies belonging to Indian constituents, and also what percentage of their advances in India, or investments in bills, etc., are made to Indian constituents, it would not enable the Committee to come to a decision on what I conceive to be one of the most important issues before them. That a Committee on which so much public money is going to be spent, should fail to give a decisive guidance to the country, merely because the Chairman or the Finance Department are nervous of insisting on definite information being given by Foreign Banks enjoying business advantages and the protection of Indian law, would be most unfortunate. I, therefore, trust that you will re-read all the communications, which you have sent down on this subject seeking this information, and if your previous communications admit of any doubt as to what is desired, I have to request you to take immediate steps to clear up the matter so that the desired information may be available in time.

With regard to your paragraph 4, as intimated in my previous letter, I have to request you to let me know:—

(1) Whether the India Office has approached the foreign banks at all for information,

(2) Whether the foreign banks have refused to supply figures according to the request by you to the India Office made about twelve months ago;

and it is very strange that the India Office authorities should not have communicated with the Chairman of the Committee whether they have made the effort, and, if so, whether they have failed in that effort to get the necessary figures from foreign banks. If you now write to the Chairman not to approach the India Office with regard to this, because the Finance Department in India is going to take it up, I fear the position of the Committee will be that it will be sent from pillar to post for important information, which the Government of the country ought to be able to get, and I trust that at the eleventh hour it will not be urged that the information is not available.

Letter dated 22nd December 1930, from Mr. Manu Subedar, to the Secretary, Indian Central Banking Enquiry Committee.

Some time ago I had requested you for several papers relevant to the enquiry, for some of which I had frequently reminded you. I shall be, therefore, obliged if you will let me know when I can expect to receive these papers, or, if such papers are not available, whether you have written to the Finance Department for them and they have refused to let you have them. As far as I remember, some of the papers mentioned to you are as follows:—

(1) Correspondence between Government of India and the Secretary of State on the question of the Central Banking Institution between 1900 and 1903.

(2) Do. do. do. do. in 1912.

(3) Representation by the Exchange Bankers' Association or any individual Exchange Bank to the Government of India in 1919-20, and 1920-21 in connection with the proposed amalgamation of the Presidency Banks.

(4) Do. do. at any time after 1926 when the question of the Reserve Bank was being considered by the Finance Department.

(5) Circular issued by the Imperial Bank of India to its shareholders relative to the terms which were being offered or discussed with the Government of India in connection with the Reserve Bank Bill.

(5) Volume of evidence placed before the Babington-Smith Committee.

Thanking you in anticipation.

[I regret that papers under (3), (4) and (5) were not made available.—MANU SUBEDAR.]

Letter dated the 20th February 1931, from Messrs. Manu Subedar, N. R. Sarkar, R. K. Shammukham Chetty, G. K. Devadhar and Mukhtar Singh, to the Secretary, Indian Central Banking Enquiry Committee.

Re information from the Exchange Banks.

We are of opinion that the information called for in the course of discussion of the Committee and otherwise should be made available as early as possible. The information asked for is with regard to the position of the Indian business of each of the banks working in this country and in the matter of deposits and cash for four dates in the year in order to obviate the seasonal factor.

We do not regard as sufficient the reason which is being given for not giving the information separately for each institution and for not supplying statistics explicitly and fully. We regard the statement, which purports to give percentages of bills in foreign trade for Indians and non-Indians, as misleading, and the absolute figures, on the strength of which these percentages have been calculated, should be given to the Committee. Similarly full particulars of the activities of institutions other than British working in this country should be forthcoming.

We would request that a formal communication under the signature of the Chairman should go to each of the nineteen institutions working in this country with the request for this information, and a copy of such communication with replies received from each of these institutions should be circulated to members and should go on the records of the Committee.

Note by the Vice-Chairman, Sir Purshotamdas Thakurdas, dated 24th February 1931.

Mr. Subedar raised this question for the first time by his letter dated the 17th October 1930, enquiring what was being done with regard to British Exchange Banks and non-British Banks in the matter of collecting the necessary detailed information with regard to deposits and advances of the Exchange Banks and other foreign banks working in this country. The Secretary replied to him as per his letter of the 20th October 1930 that the India Office had been requested to obtain figures from the British Exchange Banks under certain heads and that it would be difficult for the India Office to get similar information from non-British banks who have not got their head offices in London. To this letter Mr. Subedar sent another letter dated the 23rd October enquiring whether the Chairman would let him see the correspondence in connection with this and let him know where the difficulty arises. In the last paragraph of the said letter he requested the Chairman to let the sub-Committee appointed to draft the statement on the Financing

of Foreign Trade know the result of his conference with the India Office on this subject. The Secretary in his letter dated the 3rd November informed Mr. Subedar that the information regarding non-British, banks had been applied for and in paragraph 4 of the said letter he communicated to him that the Chairman was being informed in London that he need not discuss the matter with the India Office as steps were being taken by the Secretary to obtain the figures of the non-British banks in India itself. In his further letter of 5th November, Mr. Subedar asked to be informed whether the foreign banks had refused to supply the figures according to request made by the Secretary to the India Office about 12 months back. This request made to the India Office about 12 months ago had reference to certain decisions arrived at by the first sub-Committee on Financing of Foreign Trade which met at Calcutta and which wanted information regarding the extent to which Exchange Banks take part in the financing of local industries, internal trade and agriculture. The sub-Committee wanted the information to be obtained from the Chairman of the Exchange Banks' Association, Calcutta, and in reply to a letter sent to him by the Secretary, the latter was informed that these details should be obtained confidentially through the India Office by the Director-General of Commercial Intelligence and Statistics, in the same way as he obtained statistical tables relating to banks in India published by him. The Director-General, Commercial Intelligence, informed the Secretary that he had written to the India Office but had not received a reply. This matter was mentioned in Committee by the Chairman in Poona before he sailed for London who further explained that the general information asked for by the first sub-Committee had been supplied by the Exchange Banks' Association by means of their written and oral evidence and that he would consider what further figures should be collected. It was after this that the letter to the India Office was issued asking for certain specific figures regarding advances and deposits of British Exchange Banks.

2. As suggested by Mr. Subedar himself in the last paragraph of his letter of the 23rd October, I, when presiding over the meeting of the second sub-Committee on Financing of Foreign Trade on 30th November 1930, put the whole correspondence up to that date before the sub-Committee and got the sub-Committee's view on this question. The sub-Committee unanimously were of the opinion that the efforts that had been made up to then would meet the requirements of the Committee and nothing further was required to be done. It is true that Mr. Subedar was not present at that meeting but it was not possible to change the date of the meeting, ever so much I may have liked to do so to suit Mr. Subedar's convenience. The figures available in connection with British Exchange Banks have already been circulated. The figures regarding non-British Exchange Banks are with the office and the Secretary is waiting for figures regarding three banks, which may be expected to be on their way from London to India. The Secretary tells me that there has been a mistake regarding the direction of these figures by the non-British banks to the India Office instead of sending them direct to the Secretary here.

3. The percentage shares of Indians and non-Indians in foreign trade was a thing which was discussed in Poona. Mr. Buckley volunteered to get information of the percentage share of Indians and non-Indians for all-India together. It was pointed out that this would give an incomplete picture as different percentages of different banks could not be tabulated together. Mr. Buckley tried to get separate figures for each bank individually. The percentage figures obtained in this way have already been supplied to the members. Mr. Khaitan promised to send a statement showing how the Indian Chamber of Commerce have arrived at their figures. This has been received and is being examined by the Joint Secretary.

4. The only new point in the letter from Mr. Subedar and five other members of the Committee is that figures regarding deposits and cash should be obtained for four dates in the year instead of one, in order to obviate the seasonal factor. This same point was considered by the sub-Committee on Financing of Foreign Trade that met at Poona and they agreed with me

that there is no use troubling the Exchange Banks for more figures as it may delay the submission of even necessary figures. I have reason to believe that some other members of the Committee besides those who were present at Poona at the Foreign Trade Sub-Committee meeting held the same opinion. However, it is open for the Committee now to decide whether they wish to press for these figures.

5. In the second paragraph of this joint letter a doubt has been thrown on the accuracy of the percentages given. The Committee may consider how to proceed if this feeling of doubt is shared by the Committee. The signatories to the joint letter have rather overlooked the fact that the percentages that are given are both for British and non-British banks and therefore the last sentence in this second paragraph of the letter appears to have been written under a misapprehension.

6. In view of the above, the question of making a formal communication over the signature of the Chairman hardly arises until the Committee have decided the question raised in the joint letter.

Letter dated the 20th March 1931, from Mr. V. Ramadas Pantulu, to the Secretary, Indian Central Banking Enquiry Committee.*

With reference to the papers circulated by you on 27th February 1931 inviting an expression of opinion on Mr. Manu Subedar's requisition *re* obtaining certain information from the Exchange Banks, I have the honour to state as follows:—

The information asked for seems to me to be certainly relevant to the enquiry. What use the member was going to make of it and in what manner it would help the Committee is another matter. How the first sub-Committee appointed to deal with the Finance of Foreign Trade proposed to obtain certain information and the view of the second sub-Committee that no further effort should be made to obtain the information do not to my mind dispose of the right of the member to press on the Committee as a whole the need for the information.

I feel that in the ordinary course the request of the member might have been passed on to the concerned Banks with a request to let the Committee know whether the Banks were willing to furnish the information or not, and if willing to what extent and when. A negative answer directly from the banks would perhaps have served the purpose which the member had in view in some way though not in the same way as if the information was furnished.

On the whole my view is that the procedure adopted in dealing with Mr. Manu Subedar's request is not justifiable.

[Mr. Mukhtar Singh wrote " I agree ".]

Letter dated the 9th March 1931, from Mr. Manu Subedar, to the Secretary, Indian Central Banking Enquiry Committee.

Further to my several letters on the subject of information from foreign banks working in this country, I have to request you to secure me the following information:—

(1) The number of depositors who have—

(*a*) current accounts, and

(*b*) fixed deposit accounts,

with the 19 foreign banks working in India on any date, for which this information is available.

(2) How many of these were British, non-British foreigners, Indian, or companies registered in India.

I consider that it is impossible for any Indian to be assured with regard to the existing position of foreign banks in this country without information

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* This letter has not been received by the Secretary.—V. K. A.

of the kind, which I have asked for. The refusal of the foreign banks to place this information at the disposal of the Committee would be on a par with the refusal of a party in a law suit, who possesses relevant documents and who, on being called upon to produce them, does not produce them, permitting full adverse inference against him.

Letter dated the 10th March 1931, from the Secretary, Indian Central Banking Enquiry Committee, to Mr. Manu Subedar.

With reference to your letter on the subject of information from foreign banks, dated the 9th March 1931, I beg to inform you that the Chairman proposes to bring the matter forward before the Committee when the Committee discusses the letter signed by certain members of the Committee, dated the 20th February 1931, on the same subject.

[This was the last I heard about this matter. I have no knowledge whether this matter was ever brought before the Committee and whether they came to any decision on it.—MANU SUBEDAR.]

ANNEXURE II.

ANSWERS TO MR. MANU SUBEDAR'S QUESTIONS.

Q. 1.—Rate at which banks are taking deposits for (*a*) three months, (*b*) six months, (*c*) one year.

A.—Depends on the trend of the money market, whether more or less than Reichsbank rate is offered. This trend changes frequently. Without trend the rates would be approximately (*a*) to (*c*) 1 per cent. below bank rate, rising to bank rate, the longer the term.

Q. 2.—Rate at which banks give advance as—

(*a*) cash credits (if they exist in your country),

(*b*) loans unsecured, *i.e.*, clean advance,

(*c*) secured loan against (1) Government security, (2) property, (3) Block as collateral.

A.—For private or commercial customers (*a*) to (*c*) 3 per cent. above bank rate for Reichsmark—loans; between banks, clean or against collateral on listed securities, according to market rate which varies permanently.

Q. 3.—Rate at which (*a*) customer can get his bill discounted, (*b*) bank can get *its* bill rediscounted.

A.—Reichsbank discounts only at bank rate. Banks discount to customer around bank rate, generally a little lower according to market; Banks for banks slightly lower.

Q. 4.—Rate of yield on Government Treasury Bills.

A.—3 months-bills somewhat below bank rate with variations for 6 months or 12 months bills according to market.

Q. 5.—Rate of yield on Government paper.

A.—If "paper" means long term bonds, the question cannot be answered for Germany because owing to general and special conditions variations in the last year have been large, and shorter and longer terms cannot be compared. Present yield would in case of new say 3 to 5 years loan probably be between 6 and 7 per cent.

Q. 6.—Bank rate of the day.

A.—5 per cent.

OTTO JEIDELS.

Money Rates in Canada.

Q. 1.—Rate at which banks are taking deposits for (*a*) three months, (*b*) six months, (*c*) one year.

A.—3 per cent. all round general.

Q. 2.—Rate at which banks give advance as (*a*) cash credits (if they exist in your country), (*b*) loans unsecured, *i.e.*, clean advance, (*c*) secured loan against (1) Government security, (2) property, (3) Block as collateral.

A.—A. B. C. usual rate 6 per cent.

Q. 3.—Rate at which (*a*) customer can get his bill discounted, (*b*) Bank can get *its* bill rediscounted.

A.—A. 6 per cent. at his own Bank.

B. No rediscount market.

Q. 4.—Rate of yield on Government Treasury Bills.

A.—No regular Treasury Bills.

Q. 5.—Rate of yield on Government paper.

A.—If long term Bonds meant the last loan issued few months ago was on 4·28 per cent. basis.

Q. 6.—Bank rate of the day.

A.—No Bank rate as no Central or Reserve Bank.

G. C. CASSELS.

Rates in England.

Q. 1.—Rate at which banks are taking deposits for (*a*) three months, (*b*) six months, (*c*) one year.

A.—(*a*) 2½ to 2¾ per cent. for sums over £50,000
(*b*) 2¾ to 3 per cent. for sums over £50,000
(*c*) 3 per cent. for sums over £50,000
} Ordinary Deposit rate 1 per cent.

Q. 2.—Rate at which banks give advance as—

(*a*) cash credits (if they exist in your country),

(*b*) loans unsecured, *i.e.*, clean advance,

(*c*) secured loan against (1) Government security, (2) property, (3) Block as collateral.

A.—(*a*) 4 per cent. (Warehouse receipts).
(*b*) 3 per cent. to 4 per cent.
(*c*) (*i*) 3 to 3½ per cent.
(*ii*) 4 per cent.
(*iii*) 3½ to 4 per cent.
} These rates are for large loans, the other loans are at 4 to 5 per cent.

Q. 3.—Rate at which (*a*) customer can get his bill discounted, (*b*) bank can get *its* bill rediscounted.

A.—(*i*) Trade bills 3 to 4 per cent. bank acceptances. Fine bill rate 2 5/32 for 3 months.

(*ii*) A Bank can discount its acceptance at 2 5/32; the rediscount rate at the Bank of England is 3 per cent.; for this purpose bills require the signature both of the acceptor and the discounter.

Q. 4.—Rate of yield on Government Treasury Bills.

A.—Probably 1/32 above fine bill rate.

Q. 5.—Rate of yield on Government paper.

A.—Short Bonds about 2¾ per cent. Long term loans about £4-8-0 per cent. 5 per cent. War Loan (which is eligible to be paid off and is priced at 104) about £4-14-0 per cent. if not repaid before 1945; if it were paid off this year the yield would be about £1-2-0 per cent.

Q. 6.—Bank rate of the day.

A.—3 per cent.

B. CURRIE.

Rates in Holland.

Q. 1.—Rate at which banks are taking deposits for (*a*) three months, (*b*) six months, (*c*) one year.

A.—The conditions of the present accounts are not exactly known by me so that the figures are to a certain extent based on valuation, (*a*) 1 per cent., (*b*) 1½ per cent., (*c*) 3 per cent.

Q. 2.—Rate at which banks give advance as—

(*a*) cash credits (if they exist in your country),

(*b*) loans unsecured, *i.e.*, clean advance,

(*c*) secured loan against (1) Government security, (2) property, (3) Block as collateral.

A.—2. An answer to this question is not possible since the rates depend on various circumstances and vary permanently. Cash credits against first class

securities may under present circumstances be expected to be available at a rate of 4 per cent.

Q. 3.—Rate at which (*a*) customer can get his bill discounted, (*b*) Bank can get *its* bill rediscounted.

A.—3 (*a*) 1¼ per cent.

(*b*) 2½ per cent.

Q. 4.—Rate of yield on Government Treasury Bills.

A.—1¾ per cent. 3-month bills. 2 per cent. 6-month bills.

Q. 5.—Rate of yield on Government paper.

A.—3½ per cent. 12-month notes.

Q. 6.—Bank rate of the day.

A.—2½ per cent.

L. J. A. TRIP.

Foreign Banks—Legal Restrictions.

Q. 1.—What is the number of foreign banks operating in your country?

A. Canada: None unless Barclays Bank (Canada) Ltd., may be counted a Foreign Bank. *England:* Numerous. *Holland:* Numerous. *Dutch East Indies:*—Numerous. All similar to Exchange Banks. *Germany:* None—no legal restrictions.

Q. 2.—Are any restrictions of any kind placed on the working of such banks?

A.—The Secretary of Central Banking Enquiry is preparing a memorandum.

Q. 3.—What is the magnitude of the deposits held by these foreign banks and what is the percentage of such deposits to the total banking deposits in the country?

A.—No figures available.

Q. 4.—Are these deposits largely from the nationals of the country or from foreign nationals?

A.—Banks take deposits from both, current account being mainly from own Nationals and for time deposits they compete in the open market.

Q. 5.—Are the loans made by such banking institutions using such deposits largely to the nationals of the country or to foreign nationals?

A.—Deposits are largely used for trade with the country where the banks operate and for other foreign trade.

Q. 6.—What are the holdings in foreign currency of the Central Banking Institution of your country?

A.—Canada: No Central Bank. *England:* None published but negligible amount. *Holland:* On 29th December 1930 investments in Foreign Exchange and balances Abroad 293,000,000 florins—in Inland Bills, Loans and Advances 148,050,000 florins. Thus Foreign Investments were almost 200 per cent. of Home Investments. *Dutch East Indies:* On 11th October 1930 investments in Foreign Exchange and balances Abroad 71,371,000 florins, 7,93,00,000 Rs.—in Inland Bills, Loans and Advances 57,162,000 florins, 6,35,00,000. Thus foreign investments were nearly 125 per cent. of Home investments. *Germany:* 1. On December 15th, 1930 investments in Foreign Exchange 550,000,000 Rms. = 37 crores rupees in place of gold—being part of cover for notes issued. 2. Free balances of short term investments Abroad on December 15th, 1930 about 25 crores rupees.

Q. 7.—Do these holding represent reserve against note issue or other forms of currency or do they represent loanable capital invested abroad?

A.—Holland: All free balances, one held as reserve against note issues. *Germany:* Limited part (see statement) held as cover—Further balances available for investments in foreign markets callable at shortest notice.

Q. 8.—Are these currencies used to prevent gold from leaving this country?

A.—Yes.

Q. 9.—Is the Exchange sold by the Central Institution for this purpose and if so is it under law and regulation or mere banking conventions and convenience?

A.—No law or regulation—Central Banks Act according to best judgment.

Q. 10.—Are you aware of any restrictions on the banks of your nationality in any countries abroad and if so will you please indicate the object of such restrictions and its nature and the manner in which it works?

A.—See Secretary's memorandum.

Q. 11.—Have any banks been established by important interests in your countries, in countries abroad, registered under the laws of those countries?

A.—*Canada:* Yes. *England:* Yes. *Holland:* No. *Germany:* Very largely before the War.

Q. 12.—What is the object of such registration and how does it operate in practice to the advantage of the nationals of your country?

A.—Object is either to comply with the law or from matters of policy to attract business—or to restrict the obligation.

Q. 13.—Are any banks in your country called Exchange Banks? Even if they are not called by this name, are there any banking institutions which you can compare with what are known as Exchange banks in India?

A.—Only called Exchange Banks in Dutch East Indies. The title of Exchange Banks is very misleading. Foreign Banks where established in own countries do much the same business as the so-called Exchange Banks in India.

Q. 14.—Will you please lay on the table a copy of any laws operating in your country in the matter of regulation of banking indicating the directions in which the State has found it necessary to safeguard the banks as well as the public with regard to the operations of banks generally?

A.—Only Bank Act of Canada available. The Secretary could collect other Bank Acts.

ANNEXURE III.

Confidential.
D. O.

9, QUEENSWAY, NEW DELHI.
The 21st March 1931.

DEAR SIR BHUPENDRANATH MITRA,

BANKING ENQUIRY COMMITTEE.

It has been brought to my notice that in the course of the examination of the representatives of the Bengal Chamber of Commerce, it was suggested that a supplementary memorandum on the various points under consideration might be of value, but that no such memorandum has been sent in. I am afraid that at this stage it only remains for me to express my regret at finding that no action was taken in this connection by the outgoing Committee of the Chamber.

I understand that our assistance was specially sought in two general matters—firstly, towards allaying the disturbed feelings in the minds of the Indian commercial community, and secondly, towards lightening the task of your Committee.

As regards the first point, I should like to take this opportunity of expressing satisfaction at the happy termination of the recent conversations between the Viceroy and Mr. Gandhi, and I wish to assure your Committee that it is the earnest desire of my Chamber to take advantage of the improved atmosphere to create better relations between European and Indian commercial bodies.

I might also mention that my Chamber willingly responded to the recent invitation of the Bengal National Chamber of Commerce to discuss the jute crisis, and it gave us great pleasure to send invitations to representative Indian Chambers to the annual meetings of the Associated Chambers in December, and of the Bengal Chamber in February. We welcomed the presence of the President of the Indian Chamber at both meetings.

As regards the solution of your own Committee's problems, I do not see at the moment that we can render any useful advice or information beyond that already given. If, as a result of the publication of your report, it appears that my Chamber is able to take any practical part in the achievement of your objects, I am sure that the proposals will receive the most sympathetic consideration of my Committee.

Mr. Cook, who was the representative of the Exchange Banks Association on the Chamber Committee last year, gave oral evidence on behalf of both my Chamber and the Exchange Banks Association, and his successor on the present Chamber Committee informs me that the latter body fully endorse the sentiments expressed in this letter. I also understand from him that, as promised by Mr. Cook in Poona, copies of the Exchange Banks' Rules of business have been made more freely available to the public, and that with the approval of the London Association every support is being given to Indian Insurance Companies.

If you can suggest any further way in which I can assist you I shall be glad to do what I can.

Yours sincerely,
(Sd.) P. H. BROWNE.

Sir Bhupendra Nath Mitra, K.C.S.I., K.C.I.E., C.B.E.,
New Delhi.

Indian Central Banking Enquiry Committee.

The enclosed letter from Mr. P. H. Browne, President of the Bengal Chamber of Commerce, is circulated under the orders of the Chairman who desires that the letter should be treated as confidential.

K. C. SETH,
For Secretary.

NEW DELHI,
The 28th March 1931.

ANNEXURE IV.

SUMMARY OF RESOLUTIONS AGREED TO BY THE MEMBERS OF THE EXCHANGE BANKS ASSOCIATION IN BOMBAY, AND IN FORCE ON AND AFTER 1ST DECEMBER 1930.

1. *Hours of Business.*—The hours during which business in Exchange may be transacted through a Broker are:—

On Mondays, Tuesdays, Thursdays and Fridays 10 A.M. to 1 P.M. and 2-30 P.M. to 4 P.M.

On Wednesdays and Saturdays 10 A.M. to 1 P.M. No business may be entered into on Sundays and Holidays.

2. *Bullion* as a commodity may be bought, or sold, at any time on any day in the local market at a rupee price.

Bar gold and/or gold coin purchased for forward delivery is to be paid for one or two days prior to the day of departure of the Mail; if tendered earlier, interest at Imperial Bank rate is to be charged. Bar gold and/or gold coin tendered on Mail Day is to be treated as for the following Mail and interest charged accordingly. When buying Bar Gold and/or gold coin the Banks are to refuse to give the option of delivery of Bank Bills in the contract.

In all contracts made by the Associated Exchange Banks for Bar Silver, Bar Gold, Sovereigns or other Bullion sold to arrive, the longest time given for taking delivery after arrival shall be seven days.

Interest on Bullion shipments to India shall be charged at Bank of England rate with a minimum of 4 per cent. per annum.

Interest on duty, clearing charges, and other incidental expenses shall be charged at not less than Imperial Bank rate.

3. *Paying for Bills*—

Ready Bills are bills deliverable not later than first Mail and unless otherwise stated on the contract shall be payable as Mail Bills.

Forward Bills—All bills bought for a later delivery than the current Mail are Forward Bills. Forward Bills shall not be bought for "Cash on Delivery".

All contracts must definitely state that Forward Bills are deliverable within the Mail days of the contract period.

Until otherwise decided by the Associated Exchange Banks, Friday shall be considered Mail Day, but it is optional on the part of the paying Banker to accept bills on a Saturday for that Mail.

Payment for Forward Bills is not due until Mail Day but may be made not earlier than one day previous to Mail Day with the following exceptions:—

(1) If Friday be a Bank Holiday, Forward Bills will be paid for on the last working day preceding Friday.

(2) If Thursday be a Bank Holiday and Friday a working day, Forward Bills will be paid for on Mail Day.

If forward Bills are paid or passed to credit of current account previously, interest is to be deducted at not less than current Imperial Bank of India rate.

4. *Purchases and Sales of Foreign Exchange*, either for cash or forward delivery, must be paid for before 3-30 P.M. on week days and 1 P.M. on Saturdays.

The applicant for T. T. on London who pays the rupee equivalent before 12 noon on week days or before 11-30 A.M. on Saturdays shall be entitled

to expect payment in London on the same day. Later applications are liable to be paid in London on the following business day. Claims for delayed payment in London should be adjusted at Bank of England rate of interest, with a minimum of 4 per cent.

Penalties for Late Delivery—

On Sale Contracts:—Interest at 1 per cent. over Imperial Bank of India rate.

On Purchase Contracts:—Interest at 1 per cent. over Bank of England rate.

5. *Foreign Domicile Bills Payable in London.*—This class of bill will be subject to the following differences in relation to approved London Bills, if delivered under a contract made for D/A Credit Bills:—

Accepted payable in London or by on demand draft on London.

Demand Bills not less than 1/32nd

15 d/st to 3 m/st not less than 1/16d

4 m/st to 6 m/st not less than 1/8d

Options.—Option for delivery may be given as under:—

For Bills on Europe other than Coast Bills . .	1 calendar month.
For Coast Bills on Europe	2 calendar months.
For Bills in other than European Currencies .	2 calendar months.

Option of delivery in sale contracts shall in no case extend over more than one calendar month.

In the case of contracts made through a Broker, when more than one rate for bills with different deliveries is mentioned, the contract must state the amount and delivery against each rate.

6. *Presentation of Bills on arrival of goods.*—All bills bought with instructions to be presented for acceptance or payment on arrival of goods to carry interest until date of acceptance or payment at Bank of England rate—minimum 4 per cent.

7. *Contracts.*—(a) *Ready Contracts.*—Ready Contracts shall be deliverable—

(*a*) as between Banks, within 24 hours;

(*b*) as between Banks and Merchants, etc., within four days.

Contracts intended for immediate cash payment must be clearly stated as for " Cash ".

(b) *Margins on Contracts.*—A Bank is entitled to full delivery under all contracts and to adjust any excess or deficiency at the current rate of the day; if a purchase, at current selling rate, if a sale, at current buying rate. Contracts not taken up are to be settled on the same principle.

(c) *Jobbing Contracts.*—No contract shall be made with a Broker as principal, or in a name known to be used by the Broker for the purpose of jobbing. A Bank must refuse to give delivery to or take delivery from any party other than the declared principal or an Exchange Bank.

(d) *Contracts in 64ths of a penny.*—All business offered, ready or forward, either in buying or selling, at rates tantamount to working in 64ths of a penny, that is to say, so much at one rate, and so much at 1/32 higher or lower, as the case may be, shall be refused.

Business in Yen, Gold Dollars or any other Foreign Currency, is not allowed in fractions lower than 1/8.

8. *Brokerage on Exchange Contracts.*—The brokerage on Sterling and other Exchange Sales to Merchants shall not be less than one-sixteenth per cent. and to all Banks one thirty-second per cent.

No brokerage to be paid on Drafts under £100 or its equivalent, nor on any contract the brokerage on which amounts to less than Re. 1.

The brokerage on inland rupee sales shall not be less than 1/64 per cent.

No brokerage shall be paid to others than Brokers recognised by the Association.

9. *Payment of B. C. and A. B.*—The T. T. and Demand rates for the Cash retirement of Sterling Bills are to be fixed from day to day, or as often as may be necessary, by agreement between the Associated Exchange Banks, and no Bank shall give a higher or lower rate for cash retirements than the rate so fixed. Outstanding contracts may be utilised for this purpose, but no brokerage is to be paid by a Bank on any contract or portion of a contract so utilised.

Payment in the form of T. T. or Drafts of other Banks will not be accepted.

10. *Parcels relating to Inward Bills.*—A charge of Rs. 2 per mensem, or any part thereof, is to be made on all parcels relating to Inward Bills.

11. *Insurance on goods relating to Inward Bills.*—The following are the rates for insurance on the invoice value:—

Three annas per cent. per month—minimum Re. 1.

12. *Rebate on Inward Bills.*—If determinable by the collecting Banker, rebate is not to be allowed at any higher rate than 2 per cent. under Imperial Bank of India rate; no rebate is to be allowed unless same amounts to 8 annas on each bill.

13. *Interest on Past Due Rupee Bills* is to be charged at 1 per cent. over the Imperial Bank of India rate, but never less than 6 per cent. whether on account of Bombay or any other Agency, unless authorised by the drawer or correspondent and then only in the case of Bills for Collection.

14. *Interest on Deposits.*—The interest on Deposits fixed for periods of six months or longer is to be calculated by the number of months. On Deposits fixed for shorter periods, interest is to be calculated by the number of days.

15. *Brokerage on Deposits.*—The brokerage on Deposits and Money at Call, shall not be less than 1/64 per cent. per month. No lesser amount than Rs. 50,000 shall be accepted as Money at Call.

16. *Money.*—The lender of Call Money must call for repayment and the borrower must intimate his intention to repay before NOON on the day on which the business is desired to be closed, and payment must be made by noon on that day. Money repaid on a Saturday must be by means of a cheque on the Imperial Bank of India unless called up by the lender.

17. *Telegraphic Transfers on London.*—The minimum charge for cost of telegram is to be three words; if sent triple express, four words.

The following rules in force with the Eastern Exchange Banks in London also apply to the Bombay Association.

1. *Commission on Bills for Collection.*—It is agreed that for the simple collection of bills, shipping documents, and/or other securities, from whatever point received on all places in India, Burma and Ceylon, where the contracting Banks are established, a commission of ¼ per cent. will be charged on all amounts up to and including £250 with a minimum charge of 2*s.* 6*d.* On amounts over £250 the charge will be 1/8 per cent.

2. *Partial Deliveries in the East.*—No partial deliveries of goods against partial payments of amounts of Invoices to be granted in India, Burma, Ceylon, Straits or Java, in respect of any article of merchandise except petroleum. (In abeyance until 31st March 1931.)

3. *Air Mail.*—Outward and Homeward Bills to be sent by Sea Mail only, unless the drawers make special request that the Air Mail should be used.

With regard to the sale of on demand drafts 1/32d. better may be quoted than for T. T. provided the Broker's Contract or Application Form contains the proviso "By Sea Mail only," otherwise Members will quote the same rate for on demand as for T. T.

4. *Commission on Guarantees.*—On Confirmed or Unconfirmed Guarantees or Authorities signed by Importers *without recourse*, ¼ per cent. commission to be charged on Bills up to 7 days' sight, and for Bills over that usance up to a usance of 3 months' sight a commission of ¼ per cent. to be charged. Any period in excess of 3 months' sight to be charged at the rate of 1/16th per cent. per month. This charge to be made whether a margin is obtained or not.

5. *Securities in Safe Custody.*—Commission to be charged on securities lodged for safe custody *on the withdrawal of the securities* at the rate of ¼ per cent. on the nominal or paid up value, up to Rs. 1,00,000 and on any excess over the first Rs. 1,00,000 the commission to be charged is ⅛ per cent. on such excess.

Documents, Wills, Leases, Insurance Policies, etc., on which no value has been placed at the time of deposit will be subject to a minimum charge of Rs. 5 per sealed packet also on withdrawal.

6. *Periodical Payments.*—On all periodical payments a charge of Annas 12 per payment to be made in India, Burma and Ceylon, and 1 shilling per payment in London in respect of payments emanating from India, Burma and Ceylon.

The following comprise the Associated Exchange Banks in Bombay.

The Bank of Taiwan, Ltd.
The Chartered Bank of India, Australia and China.
The Comptoir National D'Escompte de Paris.
The Eastern Bank, Ltd.
The Hongkong and Shanghai Banking Corporation.
The Imperial Bank of Persia.
Lloyds Bank, Ltd.
The Mercantile Bank of India, Ltd.
The Mitsui Bank, Ltd.
The National Bank of India, Ltd.
The Netherlands India Commercial Bank.
The Netherlands Trading Society.
The P. & O. Banking Corporation, Ltd.
The Sumitomo Bank, Ltd.
The Yokohama Specie Bank, Ltd.

ANNEXURE V.

A BILL TO ESTABLISH A GOLD STANDARD CURRENCY FOR BRITISH INDIA AND CONSTITUTE A RESERVE BANK OF INDIA.

WHEREAS it is expedient to provide for the establishment of a gold standard currency for British India; to constitute a Reserve Bank of India to control the working of that standard and regulate the issue of bank notes and the keeping of reserves with a view to securing stability in the monetary system of British India; and generally to make provisions for matters incidental thereto; It is hereby enacted as follows:—

CHAPTER I.

PRELIMINARY.

1. *Short title, extent, commencement and duration.*—(*1*) This Act may be called the Gold Standard and Reserve Bank of India Act, 1928.

(*2*) It extends to the whole of British India, including British Baluchistan and the Sonthal Parganas.

(*3*) This section shall come into force at once, and the remaining provisions of this Act shall come into force on such date or dates, not later than the 1st day of July, 1929, as the Governor General in Council may, by notification in the Gazette of India, appoint:

Provided that the Governor General in Council may, by notification in the Gazette of India stating his reasons for such action, substitute for the year 1929 in this section the year 1930; and may, by like notifications, make two further successive substitutions of the years 1931 and 1932.

(*4*) Chapter III shall be in force for a period of twenty-five years and its operation may thereafter be extended for such further period or periods as the Governor General in Council may, by notification in the Gazette of India, direct.

2. *Definitions.*—In this Act, unless there is anything repugnant in the subject or context,—

(*a*) "the Bank" means the Reserve Bank of India constituted by this Act;

(*b*) "the Banking Department" means and includes all departments of the Bank other than the Issue Department;

(*c*) "bank rate" means the rate published by the Bank under section 47;

(*d*) "bank note" means paper money issued by the Bank;

(*e*) "the Board" means the Board of Directors constituted in accordance with section 9;

(*f*) "general meeting" means a meeting of the registered shareholders of the Bank;

(*g*) "gold standard country" means any country, other than British India, from which any person is at liberty to export gold and in which any person may obtain gold on demand from the principal currency authority on payment of the equivalent thereof, as prescribed by law, in legal tender currency;

(*h*) "Issue Department" means that department of the Bank which is charged by section 23 with the conduct and management of the note issue;

(*i*) "provincial co-operative bank" means any society which is registered or deemed to be registered under the Co-operative

Societies Act, 1912, or any other law for the time being in force in British India relating to co-operative societies and the sole business and object of which is the financing of the other societies in a province which are or are deemed to be so registered;

(*j*) "the Reserve" means the assets of the Issue Department as specified in section 31;

(*k*) "the Reserve Fund" means the Reserve Fund referred to in section 46;

(*l*) "rupee coin" means silver rupees which are legal tender under the provisions of the Indian Coinage Act, 1906; and

(*m*) "scheduled bank" means a bank included in the First Schedule.

CHAPTER II.

INCORPORATION, SHARE CAPITAL, MANAGEMENT AND BUSINESS.

Establishment and incorporation of the Reserve Bank of India.

3. *Establishment and incorporation of Reserve Bank.*—(*1*) A Bank to be called the Reserve Bank of India shall be constituted for the purpose of taking over the management of the currency from the Governor General in Council and of carrying on the business of banking in accordance with the provisions of this Act.

(*2*) The Bank shall be a body corporate by the name of the Reserve Bank of India, having perpetual succession and a common seal, and shall by the said name sue and be sued.

Share Capital.

4. *Share capital, share registers and shareholders.*—(*1*) The original share capital of the Bank shall be five crores of rupees divided into shares of one hundred rupees each, which shall be fully paid up.

(*2*) No amount in excess of twenty thousand rupees shall be issued to any one person or to any two or more persons jointly, and no person shall be allowed to acquire an interest in the share capital of the Bank, whether held in his own right, or held jointly with others, or held partly in his own right and partly jointly with others, to a nominal value in excess of twenty thousand rupees.

(*3*) Separate registers of shareholders shall be maintained at Bombay, Calcutta, Madras, Rangoon and Delhi, and a separate issue of shares shall be made in each of the areas served by those registers, as hereinafter defined, and shares shall not be transferable from one register to another save in accordance with conditions to be prescribed by the Governor General in Council.

(*4*) A shareholder shall be qualified to be registered as such in any area in which he is ordinarily resident or has his principal place of business in India, but no person shall be registered as a shareholder in more than one register or as a holder of an interest in the share capital of a total nominal value exceeding twenty thousand rupees; and no person who is not—

(*a*) domiciled in India, or

(*b*) a British subject ordinarily resident in India, or

(*c*) a company registered under the Indian Companies Act, 1913, or a society registered under the Co-operative Societies Act, 1912, or a scheduled bank, or a corporation or company incorporated by or under an Act of Parliament or any law for the time being in force in any of His Majesty's dominions and having a branch in British India,

shall be registered as a shareholder or be entitled to payment of any dividend on any share.

(5) The Board may, at its discretion, without giving any reason, decline to allot shares to any applicant or to register any transfer of shares.

(6) The areas served by the various registers mentioned in sub-section (3) shall be as follows, namely:—

(a) by the Bombay register—the Presidency of Bombay (including Sind), and the Central Provinces;

(b) by the Calcutta register—the Presidency or Bengal and the provinces of Bihar and Orissa and Assam;

(c) by the Madras register—the Presidency of Madras and the province of Coorg;

(d) by the Rangoon register—the province of Burma, and the Andaman and Nicobar Islands;

(e) by the Delhi register—the remainder of India, including the territories of Indian Princes and Rulers in India.

(7) The nominal value of the shares originally assigned to the various registers shall be as follows, namely:—

(a) to the Bombay register—one hundred and fifty lakhs of rupees;

(b) to the Calcutta register—one hundred and fifty lakhs of rupees;

(c) to the Madras register—forty lakhs of rupees;

(d) to the Rangoon register—forty lakhs of rupees;

(e) to the Delhi register—one hundred and twenty lakhs of rupees:

Provided that, in the event of the shares assigned to any register not being fully taken up at the first allotment, the Board may, with the previous sanction of the Governor General in Council, transfer a portion of such shares from that register to another.

(8) In allotting the shares assigned to a register, the Board shall, in the first instance, allot one share to each applicant qualified under sub-section (4) to be registered as a shareholder on that register; and, if the number of such applicants is greater than the total number of shares assigned to the register, shall determine by lot the applicants to whom the shares shall be allotted.

If the number of applicants is less than the number of shares assigned to the register, the Board shall allot the remaining shares to applicants who have applied for more shares than one; and if the number of extra shares so applied for exceeds the number of shares so to be allotted, the Board shall allot them among the various applicants in such manner as it may deem fair and equitable:

Provided that such allotments shall in all cases be subject to the restrictions contained in sub-section (2).

If, after all applications have been met in accordance with the provisions of this sub-section, any shares remain unallotted, they shall, notwithstanding anything contained in this section, be allotted to Government, and shall be sold by the Governor General in Council, at not less than par, as soon as may be.

5. *Increase, reduction and transfer of share capital.*—(1) The share capital of the Bank may be increased by the Board with the previous sanction of the Governor General in Council.

(2) Every such increase shall be fully paid up, and the areas to which such further shares shall be allotted and the price at which they may be issued shall be fixed by the Board with the like sanction.

(3) The Board may determine the manner in which any increase of share capital shall be effected.

(4) The share capital of the Bank may be reduced by the Board, with the previous sanction of the Governor General in Council, to such extent and in such manner as may be determined by the Bank in general meeting.

Offices and Branches.

6. *Head office, branches and agencies.*—The Head Office of the Bank shall be established in Bombay, and the Bank shall, as soon as may be, establish branches in Calcutta, Madras, Rangoon, Delhi and London, and may establish branches or agencies in any other place in India or, with the previous sanction of the Governor General in Council, elsewhere.

Management of the Bank.

7. *Management.*—The general superintendence of the affairs and business of the Bank shall be entrusted to a Board of Directors which may exercise all powers and do all such acts and things as may be exercised or done by the Bank and are not by this Act expressly directed or required to be done by the Bank in general meeting.

8. *Qualifications and disqualifications for Directorships.*—(1) Save as expressly provided in this Act—

(a) no person may be a Director, who is not or has not at some time been—

(i) actively engaged in agriculture, commerce, finance or industry, or

(ii) a director of any company as defined in clause (2) of section 2 of the Indian Companies Act, 1913, or of a corporation or company incorporated by or under any law for the time being in force in any place outside British India; and

(b) no person may be a Director who is—

(i) a government official, or

(ii) an officer or employee of any bank, or

(iii) a director of any bank, other than a registered society as defined in clause (e) of section 2 of the Co-operative Societies Act, 1912.

(2) The election or appointment as Director of any person who is a member of the Indian Legislature or of a local Legislature shall be void, unless within one month of the date of his election or appointment he ceases to be such member, and if any Director is elected or nominated as member of any such Legislature he shall cease to be a Director as from the date of such election or nomination, as the case may be.

9. *Composition of the Board, and term of office of Directors.*—(1) The Board shall consist of the following Directors, namely:—

(a) a Governor and two Deputy Governors to be appointed by the Governor General in Council after consideration of any recommendation made by the Board in that behalf;

(b) four Directors to be nominated by the Governor General in Council;

(c) two Directors to be elected by the Associated Chambers of Commerce;

(d) two Directors to be elected by the Federation of the Indian Chambers of Commerce;

(e) one Director, representing the interests of agriculture, to be elected by provincial co-operative banks holding shares to the nominal value of not less than five thousand rupees:

(*f*) eleven Directors to be elected on behalf of the shareholders on the various registers, in the manner provided in section 10 and in the following numbers, namely:—

(*i*) for the Bombay register—three Directors;

(*ii*) for the Calcutta register—three Directors;

(*iii*) for the Madras register—one Director;

(*iv*) for the Rangoon register—one Director;

(*v*) for the Delhi register—three Directors; and

(*g*) one government official to be nominated by the Governor General in Council.

(*2*) The Governor and Deputy Governors shall devote their whole time to the affairs of the Bank, and shall receive such salaries and allowances as may be determined by the Board, subject to any minimum prescribed by the Governor General in Council.

(*3*) The Governor, a Deputy Governor and a Director nominated or elected under clause (*b*), (*c*), (*d*), (*e*) or (*f*) shall hold office for five years, or thereafter until his successor shall have been duly appointed, nominated or elected, and, subject to the provisions of section 8, shall be eligible for re-appointment, re-nomination or re-election, as the case may be.

The Director nominated under clause (*g*) shall hold office during the pleasure of the Governor General in Council. He may attend any meeting of the Board and take part in its deliberations, but shall not be entitled to vote.

(*4*) No act or proceeding of the Board shall be questioned on the ground merely of the existence of any vacancy in, or any defect in the constitution of, the Board.

10. *Election of Directors representing shareholders.*—(*1*) The shareholders registered on the various registers shall elect delegates for the purpose of electing Directors to represent them on the Board, and the numbers of delegates shall be as follows, namely:—

(*a*) for the Bombay register—twenty-four members;

(*b*) for the Calcutta register—twenty-four members;

(*c*) for the Madras register—ten members;

(*d*) for the Rangoon register—ten members;

(*e*) for the Delhi register—twenty-four members.

(*2*) Every shareholder who has been registered on a register for not less than six months immediately preceding the election shall be entitled to vote at the election of delegates for the shareholders on that register; and no shareholder shall have more than one vote.

(*3*) The delegates for the shareholders on a register shall be elected from among those who are shown on that register as having held, for a period of not less than six months immediately preceding the election, unencumbered shares of the Bank of a nominal value of not less than five thousand rupees:

Provided that no person shall be elected as a delegate who is a government official or an officer or servant of the Bank:

Provided further that no candidate may stand for election, unless he has been nominated by not less than twenty of the shareholders entitled to vote at the election.

(*4*) The election of delegates for the shareholders on a register shall be held once in every five years, at a convenient time before the expiry of the term of office of the retiring Directors for the election of whose successors the delegates are to be elected.

(*5*) Delegates shall hold office for a period of five years:

Provided that, if a delegate ceases to be qualified for election under sub-section (3), he shall forthwith cease to hold office as a delegate.

(6) A casual vacancy in the office of delegate, in whatsoever manner arising, may be filled by the Board from among the shareholders for the time being qualified for election to that office under sub-section (3).

(7) The delegates for the shareholders on a register shall elect, from among those shareholders, the Directors to represent them on the Board, in accordance with this Act and the rules made under section 13.

11. *Removal of Directors.*—(1) The Governor General in Council may remove from office the Governor, a Deputy Governor, or any Director nominated or elected under clause (*b*), (*c*), (*d*), (*e*) or (*f*) of sub-section (1) of section 9, on a resolution passed by the Board in that behalf by a majority consisting of not less than fifteen Directors:

Provided that, in the case of a Director elected under clause (*c*), (*d*), (*e*) or (*f*), such resolution shall have been confirmed by a majority of not less than two-thirds of the persons present and voting at a general meeting expressly called for that purpose.

(2) A Director nominated or elected under clause (*b*), (*c*), (*d*), (*e*) or (*f*) of sub-section (1) of section 9 shall cease to hold office if, at any time after the expiry of one month from the date of his nomination or election or of eighteen months from the date on which this Act comes into force, whichever is later, he is not registered as a holder of unencumbered shares of the Bank of a nominal value of not less than ten thousand rupees, or if he ceases to hold unencumbered shares of that value.

12. *Casual vacancies.*—(1) If the Governor or a Deputy Governor by infirmity or otherwise is rendered incapable of executing his duties or is absent on leave or otherwise in circumstances not involving the vacation of his appointment, the Governor General in Council may appoint another person to officiate for him, and such person may notwithstanding anything contained in clause (*b*) of sub-section (1) of section 8, be an officer of the Bank.

(2) A casual vacancy in the office of a Director, other than the vacancies provided for in sub-section (1), shall be filled in the manner in which, and by the authority by whom, the nomination or election of the Director vacating office was made; and the Director so nominated or elected shall hold office for the unexpired portion of the term of his predecessor.

13. *Power to make election rules.*—The Governor General in Council may, after previous publication, make rules to provide for all matters for which provision is in his opinion necessary or expedient for the holding and conduct of elections under this Act, and in particular and without prejudice to the generality of the foregoing power, may by such rules provide—

(*a*) for the holding of elections according to the principle of proportional representation by means of the single transferable vote or otherwise as he thinks fit in any case, and

(*b*) for the final decision of doubts or disputes regarding the qualifications of any candidate for election or regarding the validity of elections.

14. *Meetings of the Board.*—Meetings of the Board shall be convened by the Governor at least six times in each year and at least once in each quarter. Meetings shall ordinarily be held in Bombay, but at least two meetings of the Board shall be held in Calcutta in each year.

15. *General meetings.*—(1) A general meeting (hereinafter in this Act referred to as the annual general meeting) shall be held annually at Bombay within six weeks from the date on which the annual accounts of the Bank are closed, and a general meeting may be convened by the Board at any other time.

(2) Any shareholder shall be entitled to attend and vote at any general meeting, and no shareholder, whether present in person or voting through another shareholder as proxy, shall have more than one vote.

16. *Temporary provisions.*—(1) The following provisions shall apply to the first constitution of the Board, and, notwithstanding anything contained in section 9, the Board as constituted in accordance therewith shall be deemed to be duly constituted in accordance with this Act.

(2) The first Governor and first Deputy Governors shall be appointed by the Governor General in Council on his own initiative, and shall receive such salaries and allowances as he may determine.

(3) The first four Directors nominated under clause (*b*) of sub-section (1) of section 9 shall hold office for three years.

(4) The first four Directors elected under clauses (*c*) and (*d*) of that sub-section shall hold office for four years.

(5) The first Director elected under clause (*e*) of that sub-section may be elected by all provincial co-operative banks notwithstanding that shares have not been allotted, and shall hold office for four years.

(6) The first eleven Directors representing the shareholders shall be nominated by the Governor General in Council after consultation with the Local Governments, and shall hold office for two years.

(7) The first elections of Directors under section 10 shall be held before the expiry of the term of office of the Directors nominated under sub-section (6), and the Directors so elected shall hold office as follows, namely:—

(*a*) the Directors elected on behalf of the shareholders on the Bombay register—for four years;

(*b*) the Directors elected on behalf of the shareholders on the Calcutta register—for three years;

(*c*) the Director elected on behalf of the shareholders on the Madras register—for five years;

(*d*) the Director elected on behalf of the shareholders on the Rangoon register—for five years;

(*e*) the Directors elected on behalf of the shareholders on the Delhi register—for two years.

Business of the Bank.

17. *Business which the Bank may transact.*—The Bank shall be authorised to carry on and transact the several kinds of business hereinafter specified, namely:—

(1) the accepting of money on deposit without interest from, and the collection of money for, the Secretary of State in Council, the Governor General in Council, Local Governments, banks and any other persons;

(2) (*a*) the purchase, sale and rediscount of bills of exchange and promissory notes, drawn and payable in India, and arising out of *bonâ fide* commercial or trade transactions, bearing two or more good signatures, one of which shall be that of a scheduled bank, and maturing within ninety days from the date of such purchase or rediscount, exclusive of days of grace;

(*b*) the purchase, sale and rediscount of bills of exchange and promissory notes, drawn and payable in India and bearing two or more good signatures, one of which shall be that of a scheduled bank, or a provincial co-operative bank, and drawn or issued for the purpose of financing seasonal agricultural operations or the marketing of crops, and maturing within six months from the date of such purchase or rediscount, exclusive of days of grace: provided that the total face value of bills or notes so purchased or rediscounted shall not at any time exceed one-fourth of the

total face value of all bills and notes purchased or rediscounted by the Bank up to that time;

(*c*) the purchase, sale and rediscount of bills of exchange and promissory notes, drawn and payable in India and bearing the signature of a scheduled bank, and issued or drawn for the purpose of holding or trading in securities of the Government of India or a Local Government, and maturing within ninety days from the date of such purchase or rediscount, exclusive of days of grace;

(*3*) the purchase from and sale to scheduled banks and persons approved by the Board, in amounts of not less than the equivalent of one lakh of rupees, of the currencies of such gold standard countries as may be specified in this behalf by the Governor General in Council by notification in the Gazette of India, and of bills of exchange (including treasury bills) drawn in or on any place in any such country, and maturing within ninety days from the date of such purchase, exclusive of days of grace; and the keeping of balances with banks in such countries;

(*4*) the making of loans and advances, repayable on demand or on the expiry of fixed periods not exceeding ninety days against the security of—

(*a*) stocks, funds and securities (other than immoveable property) in which a trustee is authorised to invest trust money by any Act of Parliament or by any law for the time being in force in British India;

(*b*) gold coin or bullion or documents of title to the same;

(*c*) such bills of exchange and promissory notes as are eligible for purchase or rediscount by the Bank: provided that the total of the loans and advances against such securities as are referred to in sub-clause (*b*) of clause (*2*) shall not at any time exceed one-fourth of the total loans and advances made by the Bank up to that time;

(*d*) such bills of exchange as are eligible for purchase by the Bank under clause (*3*);

(*e*) promissory notes of any scheduled bank or a provincial co-operative bank, supported by documents evidencing title to goods which have been transferred, assigned, hypothecated or pledged to any such bank as security for a cash credit granted for *bonâ fide* commercial or trade transactions, or for the purpose of financing seasonal agricultural operations or the marketing of crops: provided that no loan or advance shall be made on the security of any promissory note such as is referred to in this sub-clause after the expiry of five years from the date on which this section comes into force;

(*5*) the making of advances to the Governor General in Council repayable in each case not later than three months after the close of the financial year in respect of which the advance has been made;

(*6*) the issue of demand drafts and the making, issue and circulation of bank post bills made payable on its own branches;

(*7*) the purchase and sale of securities, maturing within five years from the date of such purchase, of the Government of any gold standard country specified in this behalf by the Governor General in Council by notification in the Gazette of India;

(*8*) the purchase and sale of securities of the Government of India of any maturity, or of a Local Government or of a local authority in British India maturing within ten years from the date of

purchase: provided that the amount of such securities held at any time in the Banking Department shall be so regulated that—

(*a*) the total value of such securities shall not exceed the aggregate amount of the share capital of the Bank, the Reserve Fund and two-fifths of the liabilities of the Banking Department in respect of deposits;

(*b*) the value of such securities maturing after six months shall not exceed the aggregate amount of the share capital of the Bank, the Reserve Fund and one-fifth of the liabilities of the Banking Department in respect of deposits;

(*c*) the value of such securities maturing after one year shall not exceed the aggregate amount of the share capital of the Bank, the Reserve Fund and one-tenth of the liabilities of the Banking Department in respect of deposits; and

(*d*) the value of such securities maturing after ten years shall not exceed the aggregate amount of the share capital of the Bank and the Reserve Fund;

(*9*) the custody of monies, securities and other articles of value, and the collection of the proceeds, whether principal, interest or dividends, of any such securities;

(*10*) the sale and realisation of all property, whether moveable or immoveable, which may in any way come into the possession of the Bank in satisfaction, or part satisfaction, of any of its claims;

(*11*) the acting as agent for the Secretary of State in Council, the Governor General in Council or any Local Government in the transaction of any of the following kinds of business, namely:—

(*a*) the purchase and sale of gold or silver;

(*b*) the purchase, sale, transfer and custody of bills of exchange, securities or shares in any company;

(*c*) the collection of the proceeds, whether principal, interest or dividends, of any securities or shares;

(*d*) the remittance of such proceeds, at the risk of the principal, by bills of exchange payable either in India or elsewhere;

(*e*) the management of public debt;

(*12*) the purchase and sale of gold coin and bullion;

(*13*) the opening of an account with, and the acting as agent or correspondent of, any other bank which is the principal currency authority of a gold standard country under the law for the time being in force in that country or any of the Federal Reserve Banks in the United States of America;

(*14*) the borrowing of money for a period not exceeding one month for the purposes of the business of the Bank, and the giving of security for money so borrowed:

Provided that the total amount of such borrowings shall not at any time exceed the amount of the share capital of the Bank:

Provided, further, that no money shall be borrowed under this clause from any person in British India other than a scheduled bank;

(*15*) the making and issue of bank notes subject to the provisions of this Act; and

(*16*) generally, the doing of all such matters and things as may be incidental or subsidiary to the transaction of the various kinds of business hereinbefore specified.

18. *Power of direct discount.*—When, in the opinion of the Board, it is necessary or expedient that action should be taken under this section in the

interests of Indian trade or commerce, or for the purpose of enabling the Bank to perform any of its functions under this Act, the Bank may, notwithstanding any limitation contained in sub-clauses (*a*) and (*b*) of clause (*2*) of section 17, purchase, sell or discount any bills of exchange or promissory notes drawn and payable in India and arising out of *bonâ fide* commercial or trade transactions, bearing two or more good signatures and maturing within ninety days from the date of such purchase or discount, exclusive of days of grace.

19. *Business which the Bank may not transact.*—Save as otherwise provided in sections 17, 18 and 45, the Bank may not—

(*1*) engage in trade or otherwise have a direct interest in any commercial, industrial, or other undertaking, except such interest as it may in any way acquire in the course of the satisfaction of any of its claims: provided that all such interests shall be disposed of at the earliest possible moment;

(*2*) purchase its own shares or the shares of any other bank or of any company, or grant loans upon the security of any such shares;

(*3*) advance money on mortgage of, or otherwise on the security of, immoveable property or documents of title relating thereto, or become the owner of immoveable property, except so far as is necessary for its own business premises and residences for its officers and servants;

(*4*) make unsecured loans or advances;

(*5*) draw or accept bills payable otherwise than on demand;

(*6*) allow interest on deposits or current accounts.

CHAPTER III.

Central Banking Functions.

Relations of the Bank with the Secretary of State in Council, the Governor General in Council and Local Governments.

20. *Obligation of Bank to transact Government business.*—The Bank shall undertake to accept monies for account of the Secretary of State in Council and the Governor General in Council and such Local Governments as may have the custody and management of their own provincial revenues, and to make payments up to the amount standing to the credit of their accounts respectively, and to carry out their exchange, remittance and other banking operations, including the management of the public debt, on such conditions as may be agreed upon.

21. *Bank to have the right to transact Government business.*—(*1*) The Governor General in Council and such Local Governments as may have the custody and management of their own provincial revenues shall undertake to entrust the Bank, on such conditions as may be agreed upon, with all their money, remittance, exchange and banking transactions in India and elsewhere and, in particular, to deposit free of interest all their cash balances with the Bank:

Provided that nothing in this sub-section shall prevent the Governor General in Council or any Local Government from carrying on money transactions at government treasuries or sub-treasuries at places where the Bank has no branches or agencies, and the Governor General in Council and Local Governments may hold at such treasuries and sub-treasuries such balances as they may require.

(*2*) The Governor General in Council and each Local Government shall undertake to entrust the Bank, on such conditions as may be agreed upon, with the management of the public debt and with the issue of any new loans.

Note Issue.

22. *Right to issue bank notes.*—(1) The Bank shall have the sole right to issue paper money in British India, and may, for a period of one year from the date on which this Chapter comes into force, issue currency notes of the Government of India supplied to it by the Governor General in Council, and the provisions of this Act applicable to bank notes shall, unless a contrary intention appears, apply to all currency notes of the Government of India issued either by the Governor General in Council or by the Bank in like manner as if such currency notes were bank notes, and references in this Act to bank notes shall be construed accordingly.

(2) On and from the aforesaid date the Governor General in Council shall not issue any currency notes or any other kind of paper money.

23. *Issue Department.*—(1) The issue of bank notes shall be conducted by the Bank in an Issue Department which shall be separated and kept wholly distinct from the Banking Department, and the assets of the Issue Department shall not be subject to any liability other than the liabilities of the Issue Department as hereinafter defined in section 32.

(2) The Issue Department shall not issue bank notes to the Banking Department or to any other person except in exchange for other bank notes or for such coin, bullion or securities as are permitted by this Act to form part of the Reserve.

24. *Denominations of notes.*—Bank notes shall be of the denominational values of five rupees, ten rupees, fifty rupees, one hundred rupees, five hundred rupees, one thousand rupees and ten thousand rupees, and of such other denominational values, if any, as may be directed by the Governor General in Council.

25. *Form of bank notes.*—The design, form and material of bank notes shall be such as may be approved by the Governor General in Council.

26. *Legal tender character of notes.*—(1) Subject to the provisions of sub-section (2), every bank note shall be legal tender at any place in British India in payment or on account for the amount expressed therein, and shall be guaranteed by the Governor General in Council.

(2) The Governor General in Council may, by notification in the Gazette of India, declare that, with effect from such date as may be specified in the notification, any series of bank notes of any denomination shall cease to be legal tender save at an office or agency of the Bank.

27. *Re-issue of notes.*—Any bank note re-issued from any office of the Bank shall be sterilized and disinfected before re-issue, and the bank shall not re-issue bank notes which are torn, defaced or excessively soiled.

28. *Recovery of notes lost, stolen, mutilated or imperfect.*—Notwithstanding anything contained in any enactment or rule of law to the contrary, no person shall of right be entitled to recover from the Governor General in Council or the Bank the value of any lost, stolen, mutilated or imperfect currency note of the Government of India or bank note:

Provided that the Bank may, with the previous sanction of the Governor General in Council, prescribe the circumstances in, and the conditions and limitations subject to, which the value of such currency notes or bank notes may be refunded as of grace.

Prohibition of issue of private bills or notes payable to bearer on demand.

29. *Issue of demand bills and notes.*—No person in British India other than the Bank or, as expressly authorised by this Act, the Governor General in Council shall draw, accept, make or issue any bill of exchange, *hundi*, promissory note or engagement for the payment of money payable to bearer on demand, or borrow, owe or take up any sum or sums of money on the bills, *hundis* or notes payable to bearer on demand of any such person:

Provided that cheques or drafts payable to bearer on demand or otherwise may be drawn on a person's account with a banker, shroff or agent.

30. *Penalty.*—(*1*) Any person contravening the provisions of section 29 shall, on conviction by a Presidency Magistrate or a Magistrate of the first class, be punishable with fine equal to the amount of the bill, *hundi*, note or engagement in respect whereof the offence is committed.

(*2*) No prosecution under this section shall be instituted except on complaint made by the Bank.

Assets of the Issue Department.

31. *The Reserve.*—(*1*) The Reserve shall consist of gold coin, gold bullion, gold securities, rupee coin and rupee securities to such aggregate amount as is not less than the total of the liabilities of the Issue Department as hereinafter defined.

(*2*) Of the total amount of the Reserve, not less than two-fifths shall consist of gold coin, gold bullion or gold securities:

Provided that the amount of gold coin and gold bullion shall not at any time be less than thirty crores of rupees in value, and shall not be less than one-fifth of the total amount of the Reserve after the end of the fifth year, or than one-quarter of the total amount of the Reserve after the end of the tenth year, from the date on which this Chapter comes into force.

(*3*) The remainder of the Reserve shall be held in rupee coin, Government of India rupee securities of any maturity and such bills of exchange and promissory notes drawn and payable in British India as are eligible for purchase by the Bank under sub-clause (*a*) or sub-clause (*b*) of clause (*2*) of section 17 or under section 18:

Provided that the amount held in rupee coin shall not exceed—

(*a*) during the three years after the date on which this Chapter comes into force, ninety-five crores of rupees.

(*b*) during the next three years, seventy-five crores of rupees,

(*c*) during the next four years, sixty crores of rupees, and

(*d*) fifty crores of rupees thereafter,

or one-tenth of the total amount of the Reserve, whichever amount is greater:

Provided further that the amount held in Government of India rupee securities shall not at any time exceed one-fourth of the total amount of the Reserve or fifty crores of rupees, whichever amount is less.

(*4*) For the purposes of this section, gold coin and gold bullion shall be valued at 8·47512 grains of fine gold per rupee, rupee coin shall be valued at its face value, and gold and rupee securities shall be valued at the market rate for the time being obtaining.

(*5*) Of the gold coin and gold bullion held in the Reserve, not less than seventeen-twentieths shall be held in British India, and all gold coin and gold bullion forming part of the Reserve shall be held in the custody of the Bank or its agencies:

Provided that gold belonging to the Bank which is in any other bank or in any mint or treasury or in transit may be reckoned as part of the Reserve.

(*6*) For the purposes of this section, the gold securities which may be held as part of the Reserve shall be securities of any of the following kinds payable in the currency of any of such gold standard countries as may be specified in this behalf by the Governor General in Council by notification in the Gazette of India, namely:—

(*a*) balances at the credit of the Issue Department with a bank which is the principal currency authority under the law for the time being in force of such country, or with any of the Federal Reserve Banks in the United States of America;

(*b*) bills of exchange bearing two or more good signatures and drawn on and payable at a place in any such country and having a maturity not exceeding ninety days;

(*c*) securities maturing within five years of the Government of any part of His Majesty's dominions which is a gold standard country or of any other gold standard country specified in this behalf by the Governor General in Council by notification in the Gazette of India:

Provided that, for a period of two years from the date on which this Chapter comes into force,—

(*i*) any of such last-mentioned securities may be securities maturing after five years, and the Bank may, at any time before the expiry of that period, dispose of such securities notwithstanding anything contained in section 17, and

(*ii*) sterling securities of the Government of India may be held as part of the Reserve.

Liabilities of the Issue Department.

32. *Liabilities.*—(*1*) The liabilities of the Issue Department shall be an amount equal to the total of the amount of the currency notes of the Government of India and bank notes for the time being in circulation and of an initial amount of forty crores of rupees for the purpose of providing for rupee redemption, which last-mentioned amount shall be reduced by one rupee for every five rupees delivered to the Governor General in Council under the provisions of section 34, and shall be increased by one rupee for every five rupees received from him under section 35.

(*2*) For the purposes of this section, any currency note of the Government of India or bank note which has not been presented for payment within forty years from the 1st day of April following the date of its issue shall be deemed not to be in circulation, and the value thereof shall, notwithstanding anything contained in sub-section (*2*) of section 23, be paid by the Issue Department to the Governor General in Council or the Banking Department, as the case may be; but any such note, if subsequently presented for payment, shall be paid by the Banking Department, and any such payment in the case of a currency note of the Government of India shall be debited to the Governor General in Council.

Initial Assets and Liabilities.

33. *Transfer of assets and liabilities to the Bank.*—On the date on which this Chapter comes into force, the Issue Department shall take over from the Governor General in Council the liability for all the currency notes of the Government of India for the time being in circulation, and the Governor General in Council shall transfer to the Issue Department gold coin, gold bullion, gold securities, rupee coin and rupee securities to such aggregate amount as is equal to the total of the amount of the liability so transferred and of a sum of forty crores of rupees. The coin, bullion and securities shall be transferred in such proportion as to comply with the requirements of section 31.

Provided that the total amount of the gold coin, gold bullion and gold securities so transferred shall not be less than one-half of the whole amount transferred.

Supply of coin, and of different forms of legal tender currency.

34. *Delivery to Government of surplus rupee coin.*—The Bank may deliver to the Governor General in Council all rupee coin held by it in excess of the amount which the Issue Department is permitted to hold as part of the Reserve under section 31, against payment of four rupees in bank notes, gold or gold securities for every five rupees so delivered.

35. *Purchase of rupee coin.*—When the amount of rupee coin for the time being held in the Reserve does not exceed twenty-five crores of rupees,

or one-tenth of the total amount of the Reserve, whichever is greater, the Bank may demand delivery of rupee coin from the Governor General in Council, on payment of four rupees in bank notes, gold or gold securities for every five rupees so delivered.

36. *Obligations of Government and Bank in respect of rupee coin.*—The Governor General in Council shall undertake not to re-issue any rupee coin delivered under section 34 nor to put into circulation any new rupees, except through the Bank and on the Bank's demand; and the Bank shall undertake not to dispose of rupee coin otherwise than for the purposes of circulation or by delivery to the Governor General in Council under that section.

37. *Obligation to supply different forms of currency.*—The Bank shall issue rupee coin on demand in exchange for currency notes of the Government of India, and shall issue currency notes or bank notes on demand in exchange for coin which is legal tender under the Indian Coinage Act, 1906, and it shall, in exchange for currency notes or bank notes of five rupees or upwards, supply currency notes or bank notes of lower value or rupees or other coins which are legal tender under the Indian Coinage Act, 1906, in such quantities as may, in the opinion of the Bank, be required for circulation; and the Governor General in Council shall, subject to the provisions of section 35, supply such rupees or other coins to the Bank on demand. If the Governor General in Council at any time fails to discharge this duty, the Bank shall be released from its obligations to supply such coins to the public.

Obligation to sell gold and gold exchange.

38. *Sale of gold.*—(*1*) The provisions of this section shall have effect from such date, not later than the 1st day of July, 1931, as the Governor General in Council may, by notification in the Gazette of India, appoint:

Provided that the Governor General in Council may, by notification in the Gazette of India stating his reasons for such action, substitute for the year 1931 in this section the year 1932; and may, by like notifications, make two further successive substitutions of the years 1933 and 1934.

(*2*) The Bank shall sell gold bullion for delivery in Bombay to any person who makes a demand in that behalf at its office at Bombay, Calcutta, Madras, Rangoon or Delhi and pays in legal tender currency the purchase price as determined under the provisions of this section:

Provided that no person shall be entitled to demand an amount of gold bullion containing less than two hundred and fifty tolas of fine gold.

(*3*) The price of gold bullion for delivery in Bombay shall be twenty-one rupees, three annas and ten pies per tola of fine gold with an addition representing twice the normal cost per tola of transferring gold bullion in bulk from Bombay to such place in a gold standard country as may be specified in this behalf by the Governor General in Council by notification in the Gazette of India, including interest on its value during transit:

Provided that no such addition shall be made when the rate at which the currency of the country in which the place so specified is situate can be purchased in Bombay for immediate delivery at that place is such that the equivalent of the price at which the principal currency authority of that country is bound by law to give gold in exchange for currency is less than twenty-one rupees, three annas and ten pies per tola of fine gold by an amount equal to or greater than the normal cost per tola of transferring gold bullion in bulk from the specified place to Bombay, including interest on its value during transit.

(*4*) The Governor General in Council shall, from time to time, determine in accordance with the provisions of sub-section (*3*) the price at which the Bank shall sell gold bullion for delivery in Bombay, and shall notify the price so determined in the Gazette of India. Such notification shall be conclusive as between the Bank and any other person as to the

price which the Bank shall be entitled to charge in respect of any sale of gold bullion.

39. *Sale of gold exchange.*—(*1*) The Bank shall sell, to any person who makes a demand in that behalf at its office at Bombay, Calcutta, Madras, Rangoon or Delhi and pays the purchase price in legal tender currency, at a rate equivalent to twenty-one rupees, three annas and ten pies per tola of fine gold, the currency of such gold standard country as may be notified in this behalf by the Governor General in Council in the Gazette of India, for immediate delivery in that country:

Provided that no person shall be entitled to demand an amount of currency of less value than that of two hundred and fifty tolas of fine gold.

(*2*) For the purpose of determining the equivalent rate applicable to the sale of currency under this section, twenty-one rupees, three annas and ten pies shall be deemed to be equivalent to such sum in that currency as is required to purchase one tola of fine gold in that country at the rate at which the principal currency authority of that country is bound by law to give currency in exchange for gold, after deduction therefrom of an amount representing the normal cost per tola of transferring gold bullion in bulk from Bombay to that country, including interest on its value during transit.

(*3*) The Governor General in Council shall, from time to time, determine the equivalent rate in accordance with the provisions of sub-section (*2*), and shall notify the rate so determined in the Gazette of India.

Obligation to buy gold.

40. *Obligation of Bank to buy gold.*—The Bank shall buy, from any person who makes a demand in that behalf at its office in Bombay, Calcutta, Madras, Rangoon or Delhi, gold bullion for delivery in Bombay at the rate of twenty-one rupees, three annas and ten pies per tola of fine gold, if such gold is tendered in the form of bars containing not less than two hundred and fifty tolas of fine gold:

Provided that the Bank shall be entitled to require such gold bullion to be melted, assayed and refined, by persons approved by the Bank, at the expense of the person tendering the bullion.

Suspension of Reserve requirements and tax on note issue.

41. *Suspension of Reserve requirements.*—(*1*) The Bank may, with the previous sanction of the Governor General in Council, for periods not exceeding thirty days in the first instance, which may, with the like sanction, be extended from time to time by periods not exceeding fifteen days, hold in the Reserve gold coin, gold bullion or gold securities of less aggregate amount than that required by sub-section (*2*) of section 31 and, whilst the hold is so reduced, the proviso to that sub-section shall cease to be operative.

(*2*) In respect of any period during which the holding of gold coin, gold bullion and gold securities is reduced under sub-section (*1*), the Bank shall pay to the Governor General in Council a tax upon the amount by which such holding is reduced below the minimum prescribed by sub-section (*2*) of section 31; such tax shall be payable at the bank rate for the time being in force, with an addition of one per cent. per annum when such holding exceeds thirty-two and a half per cent. of the total amount of the Reserve and of a further one and a half per cent. per annum in respect of every further decrease of two and a half per cent. or part of such decrease:

Provided that the tax shall not in any event be payable at a rate less than six per cent. per annum.

42. *Bank exempt from further note tax.*—The Bank shall not be liable to the payment of any stamp duty under the Indian Stamp Act, 1899, in respect of bank notes issued by it.

Duration of the privilege of note issue.

43. *Powers of Government in respect of note issue and assets of the Bank in certain circumstances.*—If at any time the Bank fails to comply with any provision of this Chapter or with any other provision of this Act, the Governor General in Council may, by notification in the Gazette of India, declare that the Bank has forfeited the right of note issue, and shall thereupon take over the liabilities of the Issue Department together with such portion of the assets of the Bank as is required to meet such liabilities, and thereafter the business of the Issue Department shall be carried on in the manner prescribed by this Act by such agency as the Governor General in Council may determine.

Cash reserves to be maintained by banks.

44. *Cash reserves of certain banks to be kept with the Bank.*—(*1*) Every scheduled bank shall maintain a balance with the Reserve Bank the amount of which shall at no time be less than seven and one-half per cent. of the daily average of the demand, and two and one-half per cent. of the daily average of the time liabilities of such bank in India.

(*2*) For the purposes of sub-section (*1*), the daily average of the amounts of the demand and time liabilities of each scheduled bank shall be computed in respect of each period ending on the fifteenth and on the last day of each month.

(*3*) Every such bank shall send to the Governor General in Council and to the Bank a monthly return, signed by two responsible officers of such bank, showing—

(*a*) the amounts of its demand and time liabilities respectively in India,

(*b*) the total amount held in India in currency notes of the Government of India and bank notes,

(*c*) the amounts held in India in rupee coin and subsidiary coin respectively,

(*d*) the amounts of advances made and of bills discounted in India respectively, and

(*e*) the balance held at the Bank,

at the close of the month to which the return relates.

(*4*) Every such return shall be sent not later than fourteen days after the close of the month to which it relates, and shall state whether the bank has during that month maintained with the Reserve Bank the minimum balance required by sub-section (*1*).

(*5*) Any bank failing to comply with the provisions of sub-section (*3*) or sub-section (*4*) shall be liable, on application made by or on behalf of the Governor General in Council to the principal Civil Court having jurisdiction in a place where an office of the bank is situated, to a penalty of one hundred rupees for each day during which the failure continues.

(*6*) When it appears from any such monthly return or from a report of the Board that any scheduled bank has failed to maintain the minimum balance required by sub-section (*1*), the Governor General in Council may call for such further return, or make such inspection of the books and accounts of that bank, as may be necessary to ascertain the amount of the deficiency, if any, and the period during which it has continued; and a bank so in default shall be liable, on application made by or on behalf of the Governor General in Council to the principal Civil Court having jurisdiction in a place where an office of the bank is situated, to a penalty at a rate per annum which shall be three per cent. above the bank rate on the amount of the deficiency for each day during which the default has continued, and shall be raised to five per cent. above the bank rate after the first seven days of the deficiency.

(7) The Governor General in Council shall, by notification in the Gazette of India, direct the inclusion in the First Schedule of any company, not already so included, which carries on the business of banking in British India and which—

(a) is a company as defined in clause (2) of section 2 of the Indian Companies Act, 1913, or a corporation or company incorporated by or under any law in force in any place outside British India, and

(b) has a paid-up capital and reserves of an aggregate value of not less than three lakhs of rupees;

and shall, by a like notification, direct the exclusion from that Schedule of any scheduled bank the aggregate value of whose paid-up capital and reserves at any time becomes less than three lakhs of rupees, or which goes into liquidation or otherwise ceases to carry on banking business.

Agreement with the Imperial Bank of India.

45. *Agreement with the Imperial Bank.*—The Bank shall enter into an agreement with the Imperial Bank of India which shall be subject to the approval of the Governor General in Council, and shall be expressed to come into force on the date on which this Chapter comes into force and to remain in force for twenty-five years, and shall further contain the provisions set forth in the second Schedule.

CHAPTER IV.

General Provisions.

Reserve Fund and allocation of Surplus.

46. *Allocation of surplus.*—After making provision for bad and doubtful debts, depreciation in assets, contributions to staff and superannuation funds, and such other contingencies as are usually provided for by bankers, and after payment out of the net annual profits of a cumulative dividend at the rate of five per cent. per annum on the share capital, the surplus shall be allocated as follows:—

(a) one-half to a Reserve Fund, until such Reserve Fund is equal to one-half of the share capital, and the remaining one-half to the Governor General in Council;

(b) thereafter, until the Reserve Fund is equal to the share capital, one-tenth to the Reserve Fund, and the balance to the Governor General in Council, and

(c) when and for so long as the Reserve Fund is not less than the share capital, a portion to an additional dividend to the shareholders calculated on the scale set forth in the Third Schedule, and the balance to the Governor General in Council:

Provided that, so long as the Reserve Fund is less than the share capital, not less than fifty lakhs of rupees of the surplus, or the whole of the surplus if less than that amount, shall be allocated to the Reserve Fund.

Bank rate.

47. *Publication of bank rate.*—The Bank shall make public from time to time the minimum rate at which it is prepared to buy or rediscount bills of exchange or other commercial paper eligible for purchase under this Act.

Audit.

48. *Auditors.*—(1) Not less than two auditors shall be elected and their remuneration fixed at the annual general meeting. The auditors may be

shareholders, but no Director or other officer of the Bank shall be eligible during his continuance in office. Any auditor shall be eligible for re-election on quitting office.

(2) The first auditors of the Bank may be appointed by the Board before the first annual general meeting and, if so appointed, shall hold office only until that meeting. All auditors elected under this section shall severally be, and continue to act as, auditors until the first annual general meeting after their respective elections:

Provided that any casual vacancy in the office of any auditor elected under this section may be filled by the Board.

49. *Appointment of special auditors by Government.*—Without prejudice to anything contained in section 48, the Governor General in Council may at any time appoint such auditors as he thinks fit to examine and report upon the accounts of the Bank.

50. (1) *Powers and duties of auditors.*—Every auditor shall be supplied with a copy of the annual balance-sheet, and it shall be his duty to examine the same, together with the accounts and vouchers relating thereto; and every auditor shall have a list delivered to him of all books kept by the Bank, and shall at all reasonable times have access to the books, accounts and other documents of the Bank, and may, at the expense of the Bank if appointed by it or at the expense of the Governor General in Council if appointed by him, employ accountants or other persons to assist him in investigating such accounts, and may, in relation to such accounts, examine any Director or officer of the Bank.

(2) The auditors shall make a report to the shareholders or to the Governor General in Council, as the case may be, upon the annual balance-sheet and accounts, and in every such report they shall state whether, in their opinion, the balance-sheet is a full and fair balance-sheet containing all necessary particulars and properly drawn up so as to exhibit a true and correct view of the state of the Bank's affairs, and, in case they have called for any explanation or information from the board, whether it has been given and whether it is satisfactory. Any such report made to the shareholders shall be read, together with the report of the Board, at the annual general meeting.

Returns.

51. *Returns.*—(1) The Bank shall prepare and transmit to the Governor General in Council a weekly account of the Issue Department and of the Banking Department in the form set out in the Fourth Schedule or in such other form as the Governor General in Council may, by notification in the Gazette of India, prescribe. The Governor General in Council shall cause these accounts to be published weekly in the Gazette of India.

(2) The Bank shall also, within two months from the date on which the annual accounts of the Bank are closed, transmit to the Governor General in Council a copy of the annual accounts signed by the Governor, the Deputy Governors and the Chief Accounting Officer of the Bank, and certified by the auditors, and the Governor General in Council shall cause such accounts to be published in the Gazette of India.

(3) The Bank shall also, within two months from the date on which the annual accounts of the Bank are closed, transmit to the Governor General in Council a statement showing the name, address and occupation of, and the number of shares held by, each shareholder of the Bank.

Liquidation.

52. *Provision regarding application of Act VII of 1913 and liquidation.*—(1) Nothing in the Indian Companies Act, 1913, shall apply to the Bank, and the Bank shall not be placed in voluntary or compulsory liquidation save with the sanction of the Governor General in Council and in such manner as he may direct.

(2) In such event the Reserve Fund and surplus assets, if any, of the Bank shall be divided between the Governor General in Council and the shareholders in the proportion of seventy-five per cent. and twenty-five per cent., respectively.

Regulations.

53. *Power of the Board to make regulations.*—(1) The Board may, with the previous sanction of the Governor General in Council, make regulations consistent with this Act to provide for all matters for which provision is necessary or convenient for the purpose of giving effect to the provisions of this Act.

(2) In particular and without prejudice to the generality of the foregoing provision, such regulations may provide for all or any of the following matters, namely:—

(a) the maintenance of the share register, the manner in which and the conditions subject to which shares may be held and transferred, and, generally, all matters relating to the rights and duties of shareholders;

(b) the manner in which general meetings shall be convened and the procedure to be followed thereat;

(c) the manner in which notices may be served on behalf of the Bank upon shareholders or other persons;

(d) the manner in which the business of the Board shall be transacted, and the procedure to be followed at meetings thereof;

(e) the establishment of Local Boards and the delegation to such Boards of powers and functions;

(f) the constitution and management of staff and superannuation funds for the officers and servants of the Bank;

(g) the manner and form in which contracts binding on the Bank may be executed;

(h) the provision of an official seal of the Bank and the manner and effect of its use;

(i) the manner and form in which the balance-sheet of the Bank shall be drawn up, and in which the accounts shall be maintained;

(j) the circumstances in which, and the conditions and limitations subject to which, the value of any lost, stolen, mutilated or imperfect currency note of the Government of India or bank note may be refunded; and

(k) generally, for the efficient conduct of the business of the Bank.

Amendments and Repeal.

54. *Amendment of Act III of 1906.*—In the Indian Coinage Act, 1906, for section 11 the following section shall be substituted, namely:—

"11. *Demonetisation of sovereign and half-sovereign.*—Gold coins, coined at His Majesty's Royal Mint in England or at any mint established in pursuance of a proclamation of His Majesty as a branch of His Majesty's Royal Mint, shall not be legal tender in British India in payment or on account, but such coins shall be received by the Reserve Bank of India at its offices and agencies in India at the bullion value of such coins calculated at the rate of 8·47512 grains troy of fine gold per rupee."

55. *Repeals.*—The Indian Paper Currency Act, 1923, and the Currency Act, 1927, are hereby repealed.

THE FIRST SCHEDULE.

[See section 2 (*m*).]

Schedule of Banks.

Ajodhia Bank, Fyzabad.
Allahabad Bank.
American Express Company Incorporated.
Banco Nacional Ultramarino.
Bangalore Bank.
Bank of Baroda.
Bank of Behar.
Bank of India, Bombay.
Bank of Morvi.
Bank of Mysore.
Bank of Taiwan.
Bari Doab Bank, Lahore.
Benares Bank.
Bhargava Commercial Bank.
Bhowanipore Banking Corporation, Calcutta.
Bombay Merchants' Bank, Bombay.
Byopar Sahayak Bank, Meerut.
Canara Bank.
Central Bank of India.
Chartered Bank of India, Australia and China.
Chota Nagpur Banking Association.
Coimbatore Town Bank.
Comptoir National d'Escompte de Paris.
Dawsons Bank, Pyapon.
Eastern Bank.
Equitable Eastern Banking Corporation.
Grindlay and Company.
Hongkong and Shanghai Banking Corporation.
Imperial Bank of India.
Imperial Bank of Persia.
Indian Bank.
Industrial Bank of Western India.
Jailpaiguri Banking and Trading Corporation.
Karachi Bank, Karachi.
Karnani Industrial Bank.
Lloyds Bank.
Lyallpur Bank.
Mercantile Bank of India.
Mitsui Bank.
Muffassil Bank, Gorakhpur.
Mysore Industrial Bank.
Namboodiri Bank, Pallippuram.
National Bank of India.
National City Bank of New York.
Nederlandsche Indische Handels-bank.
Nederlandsche Handel-Maatschappij.
Nedungadi Bank, Calicut.
Oudh Commercial Bank.
P. and O. Banking Corporation.
People's Bank of Northern India.
Punjab and Kashmir Bank, Rawalpindi.
Punjab and Sind Bank, Amritsar.
Punjab Co-operative Bank.
Punjab National Bank.
Shilotri Bank, Bombay.
Simla Banking and Industrial Company.
South India Bank, Tinnevelly.
Sumitomo Bank.
Thomas Cook & Sons.
Union Bank of India.
U. Rai Gyaw Thoo and Co., Akyab.
Yokohama Specie Bank.

THE SECOND SCHEDULE.

(See section 45.)

Provisions to be contained in the agreement between the Reserve Bank of India and the Imperial Bank of India.

1. The Imperial Bank of India shall be the sole agent of the Reserve Bank of India at all places in British India where there is a branch of the Imperial Bank of India and no branch of the Banking Department of the Reserve Bank of India.

2. In consideration of the performance by the Imperial Bank of India on behalf of the Reserve Bank of India of the functions which the Imperial Bank of India was performing on behalf of the Governor General in Council at the places referred to in clause 1 before the coming into force of the Reserve Bank of India Act, 1928, the Reserve Bank of India shall pay to the Imperial Bank of India a commission calculated on the total of the receipts and disbursements dealt with annually on account of Government by the Imperial Bank of India on behalf of the Reserve Bank of India. Such commission shall be one-sixteenth of one per cent. on the first 250 crores of such total and one-thirty-second of one per cent. on the remainder.

3. Subject to the condition that the Imperial Bank of India shall keep open branches not less in number than those existing at the time of the coming into force of the Reserve Bank of India Act, 1928, the Reserve Bank of India shall allow the following balances to the Imperial Bank of India at the interest rates hereinafter specified, namely:—

(*a*) during the first five years from that time—3 crores free of interest;

(*b*) during the next five years—2 crores free of interest and, at the option of the Imperial Bank of India, an amount not exceeding 1 crore at 2 per cent. per annum;

(*c*) during the next five years—1 crore free of interest and, at the option of the Imperial Bank of India, an amount not exceeding 2 crores at 2 per cent. per annum; and

(*d*) during the next five years—at the option of the Imperial Bank of India, an amount not exceeding 3 crores at 2 per cent. per annum.

4. The Imperial Bank of India shall not without the approval of the Reserve Bank of India open any branch in substitution for a branch existing at the time this agreement comes into force.

THE THIRD SCHEDULE.

(See section 46.)

Scale of additional dividend payable to shareholders.

A. So long as the share capital of the Bank is five crores of rupees—

(1) *if the surplus does not exceed four crores of rupees—Nil;*

(2) if the surplus exceeds four crores of rupees—

(*a*) out of such excess up to the first one and a half crores of rupees—a fraction of one-thirtieth;

(*b*) out of each successive additional excess up to one and a half crores of rupees—one-half of the fraction payable out of the next previous one and a half crores of excess:

Provided that the additional dividend shall be a multiple of one-eighth of one per cent. on the share capital, the amount of the surplus allocated thereto being rounded up or down to the nearest one-eighth of one per cent. on the share capital.

B. When the original share capital of the Bank has been increased or reduced, the additional dividend shall be calculated in the manner provided in clauses (1) and (2) above, but the fraction of one-thirtieth mentioned in sub-clause (*a*) of clause (2) shall be increased or diminished in proportion to the increase or reduction of the share capital.

THE FOURTH SCHEDULE.

(See section 51.)

RESERVE BANK OF INDIA.

An Account pursuant to the Gold Standard and Reserve Bank of India Act, 1928, for the week ending on the day of .

Issue Department.

Liabilities.	Rs.	*Assets.*	Rs.
Bank Notes held in the Banking Department.		Rupee coin	
Bank Notes in circulation .		Government of India rupee securities.	
Total Bank Notes issued .		Internal Bills of Exchange and other commercial paper.	
Government of India Notes in circulation.		Gold securities . . .	
Rupee redemption . .		Gold coin or bullion—	
		(*a*) held in India . .	
		(*b*) held outside India .	

Ratio of gold and gold securities to liabilities, per cent.

Dated the day of 19 .

Banking Department.

Liabilities.	Rs.	*Assets.*	Rs.
Capital paid up . . .		Notes	
Reserve Fund . . .		Rupee coin	
Deposits—		Subsidiary coin . . .	
(*a*) Government . .		Bills discounted—	
(*b*) Banks . . .		(*a*) Internal . . .	
(*c*) Others . . .		(*b*) External . . .	
Bills payable		(*c*) Government of India Treasury Bills.	
Other liabilities . . .		Balances held abroad . .	
		Loans and advances to the Government.	
		Other loans and advances .	
		Investments	
		Other assets	

Dated the day of 19 .

ANNEXURE VI.

Cattle Insurance.—I have tried to appreciate the object behind the Agricultural Loans Act and the Land Improvements Act. A detailed examination of the working of these Acts in various provinces would be found in the Provincial Committees' Reports. One of the purposes, which has, however, been universally approved all round in connection with these acts as well as in connection with the co-operative movement, is a loan to the agriculturists for the purchase of cattle. The discussion on this subject has brought out the definite fact that most of the agriculturists are not in a position, without borrowed money, to replace their cattle. The death of cattle not only during a famine year, but in the ordinary course, is an economic misfortune for the agriculturist, the magnitude of which can be only likened to the occurrence of a fire in the case of an industrial concern. Since cattle must die, sometime or the other, this misfortune must occur everywhere. Their automatic replacement from young stock can take place and possibly does take place, but not in all cases. The important point is that, where an agriculturist has to borrow on this account, the heavy rates, at which he borrows, places on him a burden, which in the course of a few years, is altogether out of proportion to the benefit, which he derives. Could any means be devised, by which he can be saved these heavy charges? Elsewhere in the world communities, who consider agricultural stock as an important asset, have solved the problem by means of cattle insurance. In India experiments in cattle insurance by co-operative cattle insurance societies have not had yet a marked success. It is sad that they failed, because they did not have sufficient actuarial data. Co-operative societies would undoubtedly be helpful, because they are in a position to collect small sums from their members by way of a premium, but, in order to be sound, insurance would have to be over large tracts. It would have to be spread over many districts, so that an epidemic in one area would not inflict a fatal loss on the society.

As far as is known, cattle insurance is not effected in India by English Companies. I do not regard that it is a promising field for insurance companies. The main difficulty would be the collection of small sums from the cultivator.

On the desirability of instituting cattle insurance, there can be no two opinions, as it would obviate the heavy interest charge and give the cultivator a sense of security, which he does not at present enjoy. From what is known about the Indian cultivator, there is not the slightest doubt that he would *fight shy, in the first instance,* of a system with which he is not familiar, but once the initial stage is got over and he has seen or heard of a party, whose cattle was promptly replaced from moneys, which the Insurance Company paid, he would come in at once. Ever since the co-operative movement has been introduced in this country, cattle insurance has been talked about, but nothing has been done. Had it been a suitable field for private enterprise, foreign Insurance Companies, who have penetrated far and wide in every other branch of insurance, would not have neglected this. It would, therefore, appear that something more drastic would have to be attempted if cattle insurance is to become a reality in India. It is obvious that for some years the risk, if it is a risk, would have to be carried by the community. It is further obvious that the collection of small charges in respect of premium could be best made with the land revenue without additional charge for collection and with the certainty, which is essential. Taking these two facts together, leads one to the inevitable conclusion that cattle insurance in India would have to be established as a Government concern. The charges collected would, after paying for the cost of administration, suffice for the claims, and the cost of administration, if it is running as a state concern, could be kept down. Further, the possibility of frauds, from which private enterprise will have to take great precautions,

would be less, as the ryot is not likely, untutored and on his own initiative, to attempt to put up fraudulent claims against the state.

While logically the conclusion is this, I realise that it would be a great task. There will be many practical difficulties and many considerations needing a close examination, before Government can launch out on this programme. But I make the suggestion and I would recommend that it should be considered. Full information should be secured with regard to the experience of other countries in this direction. Even when the scheme is ready, it should be only introduced in some selected districts in each province, and after experience has been gained, if there is full justification for going ahead, it may be universalised.

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